

FINANCIAL TIMES

Europe's Business Newspaper

WEEKEND FEBRUARY 27/FEBRUARY 28 1993

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Former Ferruzzi head in Italian corruption probe

Raul Gardini, former head of Ferruzzi-Montedison, is under investigation for his role in the controversial reorganisation of Italy's chemicals industry at the end of the 1980s, Milan magistrates said.

The latest blow to Italy's business elite coincided with the announcement that Lazio football club president Sergio Cragnotti, a former managing director of Montedison, was also under investigation. Page 24; Uneasiness among Italy's establishment. Page 2; When honesty means sharing your bribes. Wld I

Terror hunt after gas blasts Police launched a terrorist investigation after a gasometer was destroyed in a suspected IRA bomb attack at Warrington, Cheshire. The explosion followed an incident in which an unarmed policeman was shot and a young car driver kidnapped. Two men were arrested after the shooting and police are hunting for a third.

Lloyd's syndicate faces £200m losses A syndicate of about 1,000 Lloyd's Names, including actress Susan Hampshire, could face losses totalling up to £200m (\$284m) in one of the biggest collapses at the insurance market. Page 24

ICI to cut HQ staffs Imperial Chemical Industries, which said this week it is to shed 9,000 jobs worldwide, plans to cut nearly half the 450 staff at its Millbank headquarters in London and may move to new offices.

Blast hits World Trade Centre Up to 100 people were feared injured after an explosion damaged the World Trade Centre in New York causing some disruption to Wall Street trading. Early reports said a transformer in one of the basement buildings of the complex had exploded.

Jobless fear in Germany German unemployment could rise by a further 250,000, the opposition Social Democratic party warned after the Federal Office of Labour said it had run out of money to finance new job training schemes. Page 2

Top City firms warned Senior Salvation army staff (whose army mother Catherine Booth is pictured left) believe the financial transactions which led to an alleged \$8.2m (\$8.9m) fraud were in breach of Charity Commission guidelines drawn up after the Bank of Credit and Commerce International scandal. The charity's lay investment specialists from top City institutions held meetings with the organisation this week at which they repeated their disapproval that their advice on how to invest the missing funds had been ignored. Page 7

Manchester checked Champion Gary Kasparov and British challenger Nigel Short refused to play their world chess final under the jurisdiction of the international chess federation FIDE threatening the hopes of Manchester to stage the final this August. Page 6

Smith warning of social threat Unemployment was reaching levels that posed a serious social threat, John Smith, leader of the opposition UK Labour party, warned. Page 6

Patten under pressure Hong Kong governor Chris Patten's position weakened when his supporters criticised him for delaying publication of legislation aimed at making elections in the colony more democratic. Page 4

Somalia pullout to go ahead The eventual pullout of 3,000 US troops from Somalia will proceed despite recent riots and gun battles in Mogadishu and the south of the country in which about 100 people have died. Page 4

Mideast peace talks moves A meeting of Arab states is to be convened in Damascus shortly to discuss how to restart Middle East peace negotiations.

BBC's new chief Alan Yentob, 45, head of BBC2 television, was named BBC1 controller in succession to Jonathan Powell who has joined ITV's Carlton as head of drama. Page 6

STOCK MARKET INDICES
FTSE 100: 2,868.1 (+39.3)
Yield: 4.22
FTSE Euronext 100: 1,198.89 (+14.74)
FTSE All-Share: 3,999.53 (+1.1%)
Nikkei: 16,953.36 (+45.98)
New York: S&P 500: 2,391.36 (+3.78)
Dow Jones Ind. Ave.: 8,411.98 (+1.58)
S&P Composite: 441.58 (+0.55)

US LUNCHTIME RATES
Federal Funds: 5.1/4%
3-mo T-bill: 5.93%
Long Bond: 10.9
Yield: 6.66%

LONDON MONEY
3-mo Interbank: 5.1/4% (same)
Life long gilt future: Mar 1994: (Mar 1993.2)
Mar 1994: (Mar 1993.2)

NORTH SEA OIL (Average)
Brent 15-day (April): \$18.825 (18.84)
Brent 15-day (April): \$18.825 (18.84)
Brent 15-day (April): \$18.825 (18.84)

Gold
New York Comex (April): \$329.8 (330.6)
London: \$327.75 (328.05) Tokyo close 117.85

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Clinton urges stronger bonds in world commerce

By George Graham
in Washington

PRESIDENT Bill Clinton yesterday asserted US leadership in the task of speeding up world economic growth and taking down trade barriers but called on Japan and Germany to do their share as "engines of global prosperity".

As finance ministers and central governors flew to London for today's meeting of the Group of Seven leading industrial nations, Mr Clinton complained that international economic co-operation was not working well.

"We simply cannot afford to work at cross purposes with the other major industrial democracies. Our major partners must work harder and more closely with us to reduce interest rates, stimulate investment, reduce structural barriers to trade and restore robust global growth," Mr Clinton said.

In a speech billed by US officials as a major statement on the international economy, Mr Clinton sought to reassure those who feared his administration would be more inward-looking and protectionist than that of Mr George Bush, acknowledging that many of the US's competitiveness problems had their primary roots in US policies.

"There is much about our competitive posture that cannot be

straightened out by trade retaliation. Too many of the chains that have hobbled us in competitive trade have been made in America," Mr Clinton told an audience of cheering students at American University in Washington.

But Mr Clinton said the US

Unemployment in damnable G7 talksPage 3
The dangers of a quick fixPage 8
GDP grows 4.8%Page 24

would also enforce its trade laws, insist on reciprocal opportunities overseas for US investors, and take measures to help US communities hurt by the adaptation to a global economy.

"In short, putting the American people first, without withdrawing from the world and people beyond our borders," he said.

The speech drew enthusiastic applause from Ms Carla Hills, Mr Bush's trade negotiator, but it may not dispel the questions of the US's trading partners in the EC and Japan, who in the five weeks since Mr Clinton took office have had to weigh every declaration of free trade principles against announcements of new dumping duties on steel imports or new investigations into Airbus subsidies.

Just minutes after Mr Clinton

spoke, Mr Mickey Kantor, the US trade representative, repeated that the US wished to review all aspects of its deal with Airbus consortium shareholders over subsidies.

Mr Clinton sought to outline a middle way between the extremes of absolute free trade and protectionism, and to situate his trade policy in the broader context of his domestic economic programme and of his foreign policy goals. He also argued that bilateral, regional and multilateral approaches all had their place in trade policy.

Linking the spread of democracy in China, the developing world and the former Soviet Union to economic growth and the development of free trade, the president said a "fair distribution of the fruits of growth among an increasingly restive world population" would bring "dividends of trade, of friendship and peace".

"Trade, of course, cannot ensure the survival of democracy... but if we believe in the bonds of democracy, we must resolve to strengthen the bonds of commerce," he said.

The president used his speech to explain to his trade union and business communities backers why he would not adopt the firmly protectionist stance many of them favoured and to bid for more support for his package of taxes and spending measures.



President Bill Clinton (right), with American University president Joseph Duffy, receives an honorary degree in Washington yesterday

OFT looks into office equipment contracts

By Michael Cassell,
Business Correspondent

A WIDE-RANGING inquiry into the hiring and leasing of office equipment was announced by the Office of Fair Trading yesterday. It follows allegations of malpractice and high-pressure sales techniques, particularly in the photocopy market.

Sir Bryan Carsberg, director-general of fair trading, said he was launching an investigation because complaints about selling practices had continued despite earlier attempts to improve standards.

The OFT, which can investigate the activities of individual companies and has the power to revoke their consumer credit licences, will also examine the supply of postal franking and vending machines.

Sir Bryan said his office would examine sales methods, the nature, length and clarity of leasing contracts, the effectiveness of existing consumer protection laws and self-regulation.

Investigations will also centre on the relationship - criticised by many customers as anti-competitive - between equipment suppliers, the dealers and supporting finance and leasing companies.

Earlier this week, Southern Business Group, the publicly quoted photocopy leasing company, disclosed resignations and sackings after it admitted "improprieties" in dealings with some customers.

It said then it would

Continued on Page 24

Reshuffle option increases pressure on Lamont

By Philip Stephens,
Political Editor

MR John Major is keeping open the option of an extensive cabinet reshuffle during the summer to restore the government's battered authority.

His stance leaves a question mark over Mr Norman Lamont's hold on the Treasury and increases the pressure on the chancellor to safeguard his position with an imaginative budget next month.

But the scope for a popular Budget package on March 16 has been limited by a shift of mood in the cabinet in favour of an early increase in personal taxation to curb the mounting public sector deficit and to provide scope for new measures to help industry and the unemployed.

Close associates of the prime minister are dismissing recent suggestions at Westminster that he has decided to keep his senior cabinet colleagues in their present posts until 1994. Instead Mr

Major would review after the Budget possibilities for high-level changes before this year's summer parliamentary recess.

The chancellor has indicated that he would like to deliver both the March Budget and the second Budget due in November.

The prime minister has refused to speculate on the possibilities of a summer reshuffle. His only comment to journalists travelling back with him after his visit to Washington this week was that a shake-up was not "imminent".

That was interpreted as meaning it would not come before the Budget and most probably not before the Commons third reading of the Maastricht bill in May or June.

But the general view among Tory MPs at Westminster is that Mr Lamont has failed to recover his political authority since sterling's ignominious exit from the European Exchange Rate Mechanism last autumn. If he is moved to the Home Office or defence

Mr Kenneth Clarke and Mr

Michael Howard would be front runners to succeed him at the Treasury.

Mr Major is also under pressure to bring in fresh talent to the government by dropping some of the longer-serving ministers he inherited from Lady Thatcher.

There is speculation at Westminster that one cabinet minister has indicated privately that he is ready to stand down and the planned departure of Mr Tristan Garel-Jones from the foreign

office will leave vacant an important post just below cabinet level.

Among the ministers of state tipped by Tory party managers for promotion are Mr Stephen Dorrell at the Treasury, Mr John Redwood at environment and Mr Roger Freeman at transport.

The change of mood in the cabinet over the Budget points to an extension of the value added tax, the introduction of higher or new "green" taxes on energy and, possibly, a freeze on personal income tax allowances.

German wages pact raises rate cut hopes

By Christopher Parkes
in Frankfurt and James Blitz
in London

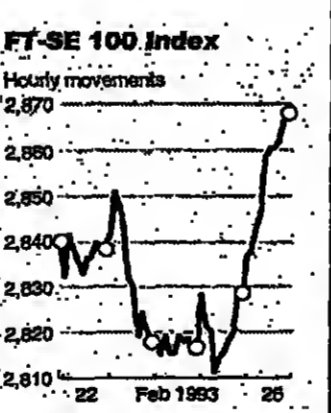
GERMANY'S banking unions yesterday agreed to a 3.3 per cent wage settlement with their employers, effectively completing this year's west German wages round and prompting speculation that the Bundesbank might ease monetary policy next week.

News of the wage agreement, which was below the projected rate of German inflation, triggered a surge on European stock markets and helped to depress the D-Mark against most other European currencies.

The London stock market gained 39.3 points to close within 6 points of its previous all-time closing high, at 2,868. Frankfurt's 30-share DAX index closed 25.44 points higher at 1,694.35 and the CAC-40 index in Paris gained 39.07 points to finish at 1,883.77.

The dollar also rose against the D-Mark as dealers contemplated the possibility that the Bundesbank would ease rates at its council meeting next Thursday. Bundesbank officials have said that moderate wage deals are an important requirement if it is to cut interest rates.

The negotiations over wages in the German banking sector followed the pattern of most earlier



agreements. They were completed quickly and without industrial action.

Most forecasts for German inflation suggest that there will be an annual rate of price increases between 3.5 per cent and 4 per cent.

Most unions started out with claims for increases of more than 6 per cent, but the recent rapid onset of recession and announcements of sweeping job losses have had a dramatic effect.

Earlier this month, a 3 per cent wage deal for Germany's public sector employees came on the day after the Bundesbank cut the discount rate by 1/4 percentage point to 8 per cent.

Wilkinson Sword in likely sale to US group

By Guy de Jonquieres,
Consumer Industries Editor

WARNER-LAMBERT, the US pharmaceuticals and consumer products group, is in advanced negotiations to buy Wilkinson Sword, the razors and toiletries company put up for sale last year.

It is understood that Warner-Lambert and Eemland, the Dutch-registered consortium of international investors which owns Wilkinson, aim to conclude negotiations early next month. Although a price has yet to be agreed, it is likely to be well below the \$90m (\$211m) which Eemland had hoped to achieve.

Warner-Lambert owns Schick, the second-largest US wet shaving products company. Acquisition of Wilkinson would give Schick a stronger base for European expansion and could provide keener competition for Gillette, the US company which dominates the world razor business.

In Europe, Schick sells mainly in France and the Benelux countries, where it has small market

Continued on Page 24

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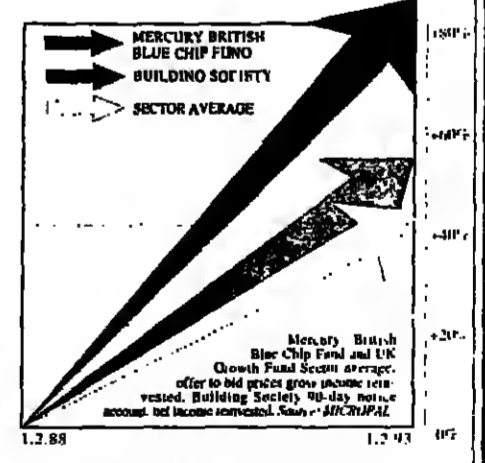
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NEWS: INTERNATIONAL

US wins Nato support for Bosnia aid plan

By Robert Mauthner
in Brussels

THE US yesterday won its Nato allies' political support for its decision to parachute humanitarian supplies to besieged Moslem enclaves in Bosnia, but failed to get any offers of concrete aid for the operation, expected to start this weekend, except from Turkey.

Making his first appearance at a Nato ministerial meeting since his appointment as US secretary of state, Mr Warren Christopher said he was nevertheless "gratified and encouraged" by the support he had received from his fellow ministers.

"I didn't come here for the purpose of asking for their aid and I was not at all disappointed by the response I received," he maintained.

Both Mr Christopher and a number of allied foreign ministers, including Mr Douglas Hurd, the British foreign secretary, went out of their way to stress that the US and European humanitarian aid efforts in Bosnia should be seen as "supplementary" and not rival policies.

But this did not prevent a certain amount of mutual irritation from creeping into their assessments of the situation in the former Yugoslavia.

Mr Christopher clearly continues to feel that the European nations are not pulling their weight in the search for a Bosnian peace settlement.

The recent decision by the US to participate in the peace negotiations in New York, chaired by Mr Cyrus Vance and Lord Owen, "comes with the expectation that Europe,

Bosnian Serb forces yesterday blocked a United Nations convoy carrying supplies for UN peacekeepers in Sarajevo for the fourth day in succession, writes Laura Silber in Belgrade.

Serb commanders in Zvornik, eastern Bosnia, delayed the convoy, which makes a weekly trip to Sarajevo. In an unprecedented move, Serb forces insisted on searching the 60 lorries, said a UN spokesman.

Part of the convoy yesterday remained in Zvornik, while 25 trucks returned to Belgrade. Meanwhile Serb military leaders softened resistance to the planned US air drop after the administration included Croat and Serb communities in the operation. But Mr Radovan Karadzic, Bosnian Serb leader, said he was worried Moslems would down one of the aircraft and blame it on Serbs to provoke US military intervention.

Mr Dragovic Djokic, Yugoslav ambassador to the UN, said: "No one can have anything against bringing humanitarian help but they must be aware of the risks of the situation. All three sides possess the means to down transport planes."

which is most directly affected, will play a leading role and redouble its concerted efforts," he told his fellow ministers. "The addition of the US should certainly not occasion any relaxation by others."

Critical and media criticism of European policy in Bosnia goaded Mr Hurd into once again underlining the extent of the British and French humanitarian aid efforts in Bosnia. British troops had escorted 279 convoys carrying 20,000 tonnes of supplies to distressed areas of Bosnia, he said.



Residents of a Sarajevo suburb brave sniper fire under cover of a snowstorm in the search for water yesterday

Mr Christopher also called on the alliance to make preparations "now" on measures to enforce a peace settlement once it is reached, pointing out that the Vance-Owen plan did not provide for the means required to ensure its implementation. "We must be ready to act effectively if and when a viable agreement is accepted by all the warring sides."

He reiterated his promise that the US was ready to join with the United Nations, the European Community, Nato

and "others" in implementing a peace agreement, including "possible US military participation."

Nato's special capabilities and command structure could play a key role in such a joint operation, together with contributions from non-allies, Mr Christopher said.

Russia said earlier this week that it was ready to co-operate with Nato in a force to implement a peace agreement, which experts estimate will require at least 60,000 peace-keeping troops.

Mr Roland Dumas, the French foreign minister, said France would propose the nomination of a special UN co-ordinator for the aid and military operation to implement a peace agreement.

Though Yugoslavia took up much of the ministers' time, Mr Christopher also made a ringing declaration on the new US administration's fidelity to the Nato alliance and its support for "a strong and integrated Europe."

President Clinton intended to pursue a policy of "total

diplomacy", which viewed domestic and foreign issues as inseparable, he said. "We recognise that only an America that is strong at home can act as an effective partner abroad."

The three pillars on which America's "total diplomacy" would rest were: elevating the US's economic security to a primary foreign policy goal; updating US forces and security arrangements to meet new threats and organising US foreign policy to help promote the spread of democracy and free markets abroad.

Who's next in Italy's probe of corruption?

ITALIAN magistrates investigating corruption seem to be systematically going through the pages of Who's Who.

Each day brings a fresh list of well-known names who are either arrested or wanted for questioning. And the momentum of investigation has begun to quicken.

This week those under investigation have included Mr Giorgio La Malfa, head of the Republican Party and Mr Raul Gardini, the most daring Italian entrepreneur of the 1980s. Those arrested included Mr Francesco Paolo Mattioli, Fiat's chief financial officer, and Mr Giampiero Pesenti, who controls Italy's biggest cement company.

But as the momentum quickens, there is a growing chorus of alarm among politicians over the extent to which the spreading investigations - involving magistrates in at least five major cities - is compromising the Italian establishment. Politicians of all parties now freely admit the political system is completely corrupted and that perhaps more than a third of the current parliament could fall foul of the law.

Mr Giovanni Conso, a distinguished judge, and recently appointed minister of justice, has argued that a solution must be found to prevent matters getting out of hand. This week he announced his ministry was working on legislation which would attempt to balance the need for justice with the need to prevent democracy from being undermined by mass incrimination of the country's leading politicians and businessmen.

But it is hard to see how parliament can legislate anything resembling a pardon or amnesty in the present climate. This would risk not only alienating public opinion but also creating a conflict between the judiciary and the legislature.

The politicians believe the solution has to lie in a redefinition of what constitutes illicit party finance and the penal consequences for who have handled such funds. The main threat in all the investigations is that of politicians receiving money from state or private companies allegedly to finance their large party bureaucracies in return for business favours.

Mr Mino Martinazzoli, the

As more arrests are made, it is feared democracy may be undermined, reports Robert Graham

Christian Democrat leader, this week favoured a form of depenalising the illicit financing of political parties: "I believe robbery is always immoral but the violation of the laws on financing political parties is not theft. It is an irregularity to which we have made a crime with penal sanctions." In other words obtaining funds illicitly and not declaring them is a misdemeanour which should merit at best a caution.

Since the Christian Democrat party is the most exposed, along with its coalition partners the Socialists, this attitude might seem self-serving. His critics suggested such treatment was inconceivable either for politicians who had forced companies to contribute to party coffers (extortion) or where companies had paid over money to assure the award of a contract.

Mr Achille Occhetto, leader of the former communist Party of the Democratic Left (PDS) and a strong moraliser, also this week hinted at special treatment for politicians who had taken money for their parties. But his purpose was also self-seeking since the PDS and former communists caught up in the investigation have all claimed they were working for the noble cause of the party. Personal enrichment, he claimed, was a worse crime.

"At the judicial level everyone is equal before the law. But on the moral level one ought to make the distinction between those accused of having illegally financed politics and those who have enriched themselves in politics."

The magistrates themselves recognise the difficulties of dealing with an ever increasing number of interrogations, and an ever larger pile of files and indictments. One suggestion has been to ask all those who have paid or received bribes over a certain figure since 1980 to come forward and declare them. The money would then be asked to be restituted, and where there was damage to a third party, damages would have to be paid.

German training hit by cash crisis

By Judy Dempsey in Berlin

THE Federal Office of Labour yesterday announced that it had run out of money to finance new job training schemes in Germany.

The announcement was greeted with dismay by politicians across the board, with the opposition Social Democratic party warning that unemployment could rise by a further 250,000 if such financing was cut off.

A total of DM9.9bn (\$4.2bn) was supposed to be earmarked this year for retraining 300,000 workers in the five east German states, and 60,000 in the rest of Germany. But the federal department overseeing the scheme has run out of money.

The spectre of rising unemployment in eastern Germany coincides with renewed calls by IG Metall, Germany's giant engineering trade union, to stop up protests in the five eastern states next week against the decision by the engineering employers to renege on a 26 per cent pay rise for 300,000 union members.

Gesamtmittel, the employers' association, broke a contract with IG Metall agreed in March 1991, which would have brought east German wages up to 82 per cent of their west German counterparts on April 1 of this year, even though productivity is 30 per cent below, and unit labour costs 40 per cent above west German levels.

However, in what might be

first signs of a compromise, Mr Thomas Stach, spokesman for employers in Thuringia, said there was a "positive signal" in talks with IG Metall. Talks broke down last week in the other four east German states after Gesamtmetall said this contract was no longer relevant because of deteriorating economic conditions in both eastern and western Germany.

In Thuringia, Mr Bernhard Vogel, the state's prime minister, and other senior officials, have supported a compromise which might involve amending the timetable for reaching income parity with western Germany, due in April 1994, and the rate of wage rises.

Gesamtmittel's decision to opt out of the contract in the other east German states was yesterday followed by an announcement from Nordmetall employers in Saxony and Berlin-Brandenburg that they too were reneging on the contract.

Mr Franz Steinkühler, head of IG Metall, told engineering workers in Jena on Thursday that strike action in the east would be taken from April 1 if the employers refused to pay the 26 per cent wage rise.

The premiers of Germany's 16 states yesterday started a weekend meeting aimed at reaching consensus on a solidarity pact. They are discussing a "federal consolidation programme," primarily designed to finance reconstruction of the east German states.

French jobless close to 3m

FRANCE'S struggling Socialist government is entering the final month of the parliamentary election campaign with unemployment just below the psychologically important 3m mark, according to the latest official figures, writes Alice Rawsthorn in Paris.

Ms Martine Aubry, employment minister, yesterday

announced that the number of unemployed people rose by 0.1 per cent in January to 2.95m, leaving 10.5 per cent of the workforce without jobs. Despite criticism, the Socialists have been clinging to their policy of sustaining a strong currency and low inflation rather than reflate the economy before the elections.

Steelmakers welcome Brussels strategy

By Quentin Peel in Bonn

GERMAN steel makers yesterday welcomed the agreement in Brussels on a broad strategy to cut EC steel-producing capacity to help stabilise the steel market.

As steel workers demonstrated against the threat of further plant closures in the Ruhr, the heart of the country's steel industry, the manufacturers expressed the hope that the deal would allow prices to be raised, and therefore cover the costs of the most efficient producers.

However, they warned that the EC industry ministers had left undecided the question of how to protect the market against cheap steel imports from eastern Europe. And they called for a longer period of at least two years to enable the industry to restructure.

Mr Ruprecht Vondran, president of the German steel federation, said the decision would make it easier for efficient steel producers to cover their costs in a stabilised market. "Now it is up to the companies themselves to end this long-lasting process of living off their reserves," he said.

He said the one year set for the industry to put most of the steel plants on a "cost-effective" - capacity cuts into effect was too short. German manufacturers estimated it would take at least two years to set aside funds to provide compensation for unprofitable producers to cut capacity and leave the market.

With a decision expected this weekend from Krupp-Hoesch, the second largest German steelmaker, on whether to close an integrated steelworks in Dortmund or Rheinfelden, 1,500 workers demonstrated yesterday outside another threatened plant - the Klockner-Werke works at Georgsmarienhütte.

Fresh effort planned to agree global pact on steel trade

By Frances Williams in Geneva

TRADE officials are to make a fresh attempt to negotiate a Multilateral Steel Agreement to eliminate trade barriers and phase out most subsidies.

After a two-day meeting this week, the officials agreed to meet again in late March or early April to consider a revised text.

The officials said that there seemed to be a genuine will among the 30 or so participants

to reach an accord, following the breakdown of talks last March, but that many delegations had no mandate to negotiate.

"Perhaps by the next meeting Washington will have got its act together," said one official, referring to the lack of policy guidance to US negotiators from the still incomplete Clinton trade team.

The MSA, originally intended to govern world steel trade after the expiry of "voluntary" export restraints to

the US market last March, came to grief a year ago over permissible subsidies and US anti-dumping and anti-subsidy actions.

Since then the discussions have been further complicated by swinging US anti-dumping and countervailing duties recently imposed on steel imports from most foreign suppliers.

Yesterday, US officials held bilateral meetings with the EC and Brazil under the Gatt dispute procedure.

Bulgarians in deal with Efta

BULGARIA yesterday became the latest eastern European country to conclude a free trade agreement with the seven members of the European Free Trade Association. The pact, which covers free trade in industrial goods, processed farm goods, fish and other marine products, will be signed this spring and come into effect on July 1 after ratification.

The agreement with Bulgaria took just three months to negotiate. Like the accords Efta has already reached with the Czech Republic, Slovakia, Poland,

Romania and Hungary, it is "asymmetric": the rich Efta members will dismantle their trade barriers faster, leaving Bulgaria until December 2002 to phase out tariffs and other restrictions.

The agreement has been accompanied by bilateral deals between Bulgaria and Efta members on liberalising trade in farm goods where there is no common Efta-wide trade regime equivalent to the European Community's Common Agricultural Policy.

Bulgaria's exports to Efta countries amounted to \$33m in

1991, while imports totalled over \$220m.

Efta is increasingly regarded as a "halfway house" to EC membership for central and eastern European nations. All Efta's current members except Switzerland will be part of the

giant free trade zone known as the European Economic Area which is due to come into force next July. On Thursday Efta and EC negotiators agreed on a compromise financial formula which will clear the way for the EEA, although the revised treaty must still be ratified by 15 national parliaments.

BA attacked over ticket system

By Nikki Tall in New York

THE three big US airlines, which are opposing plans by British Airways and USAir to implement a code-sharing agreement, have argued that the US-based airlines had "no valid legal claim" to unconditional code-sharing rights.

Under "code-sharing" agreements, airlines are permitted to use for internal flights each others' designated flight numbers to facilitate sales of tickets through the airline reservation system.

BA has claimed that it was given a right to code-sharing with a US carrier under revisions to the bilateral aviation agreement between the US and the UK which was negotiated in March 1991.

These revisions were agreed in return for concessions on the UK side, which allowed American Airlines and United Airlines to replace Pan Am and TWA as the two US carriers permitted to use London's Heathrow Airport.

However, the US carriers

of the March 1991 Memorandum of Consultations become effective "only upon an exchange of notes between the US and UK governments - something that has not as yet happened."

The MOC also states that pending such an exchange of notes, its provisions will be governed by the principles of comity and reciprocity. They add, arguing that the proposed integration of services between BA and USAir would run contrary to such principles.

Switzerland's regional banks continue to feel the squeeze

A persistent inverted yield curve has led to a spate of mergers and takeovers, writes Ian Rodger

PERHAPS one reason why the Swiss do so well in business is that they do not hesitate to be blunt - even crudely, publicly blunt - with each other.

Recently Mr Markus Lusser, president of the Swiss National Bank, demonstrated this quality anew at Biel where he went to address the leaders of the country's 160 regional banks.

It is no secret that many of Switzerland's regional banks are in trouble. One went spectacularly bust a year-and-a-half ago, creating what no one ever expected to see in this country, a queue of deposit holders vainly waiting to get their money back.

Most of the rest of these small, locally rooted banks

have been badly squeezed by an inverted yield curve that prevailed in Switzerland for nearly two years, leading to a spate of mergers and takeovers.

Now, just as the sector's leaders are beginning to see light at the end of the tunnel, Mr Lusser has come along and blocked the exit.

It was not enough to design a strategy for recovery, he said. Instead, regional bank managers should ask themselves whether, given the chance, they would start up afresh in the present climate. If not, they should look around for a merger partner or go into voluntary liquidation.

Not surprisingly, regional bankers were upset. "It was not very sensible to talk like

that. He said nothing positive," Mr Roland Boesch, deputy director of the Association of Regional Banks, says.

The regional banks do not figure large in the overall scheme of Swiss banking but the combined assets of SFR44bn (\$28bn) at the end of last year were roughly a third the size of those of Union Bank of Switzerland, the country's largest.

But they see themselves as pillars of local communities, with a better understanding of local needs than the big universal banks. "Swiss people like to deal with a bank they can feel comfortable talking to," Mr Boesch says.

Others suggest that this is a

nostalgic view. Mr Beat Philipp, banking analyst at Bank J. Vontobel in Zurich, argues that the regional banks have lost their role. "The problem is that large banks have changed. People still live in the villages, but they work and bank in the cities."

Mr Michel Petitpierre, head of research at Pictet & Co in Geneva, adds that many regional banks themselves broke ties with their local communities in the 1980s, aspiring to lend to bigger businesses.

And that is how some, including the Spar and Leihkasse Thun, which went bust in October 1991, got into trouble.

Even if most of the regional banks did fold, Switzerland would not, like Britain and



backed in whole or in part by their cantonal governments. They still account for about a fifth of all financial institutions' assets and are growing.

And there is a surprisingly buoyant network of 1,138 Raiffeisen, village co-operative banks that work on a very intimate and careful basis with local farmers and tradespeople.

The regional banks have seen their assets fall from SFR65bn in 1990 to SFR44bn last year. But Raiffeisen assets jumped from SFR28.6bn to SFR36.7bn in 1991, and the group's association says they grew again last year.

"I doubt that many people would cry over the disappearance of the regional banks," Mr Philipp says.

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Syria tries to spur peace talks

By Mark Nicholson in Cairo

SYRIA said yesterday it would convene a meeting of Arab parties to the Middle East peace process to discuss the resumption of negotiations, but warned that a quick restart was unlikely without a solution to the Palestinian deportees crisis.

Mr Farouk al-Shara, the Syrian foreign minister, said in Brussels that the delegations to the stalled talks would be invited to Damascus "within the coming days or weeks" to discuss the invitation by Mr Warren Christopher, US secretary of state, to reconvene bilateral talks with Israel in April.

Mr al-Shara said it would be "wrong to think" that any Arab parties would agree to resume negotiations until a "satisfactory solution" had been found to the impasse over 386 Palestinians who remain in south Lebanon after their deportation by Israel in December. "We in Syria insist on the return of all the deportees," he said.

The Syrian minister's remarks followed talks yesterday with several European foreign ministers and Mr Christopher, who said Mr al-Shara had

assured him that Syria would back US attempts quickly to reconvene the peace talks.

Neither Syria nor any other Arab party has accepted the invitation to return to the table by April, the date raised by Mr Christopher following his week-long tour of Middle Eastern capitals.

Mr Christopher, in Brussels to attend a meeting of Nato ministers, said he remained optimistic that talks could restart soon.

"I'm encouraged by developments since yesterday when the announcement was made," he said.

However, Mr Haider Abdel-Shaf, head of the Palestinian negotiating team, added another note of caution from Jerusalem, saying that Mr Christopher's decision to issue invitations for an April resumption were "premature" in the absence of a settlement to the deportees issue. His comments were echoed by spokesmen from the Palestine Liberation Organisation headquarters in Tunis.

Nevertheless, senior Palestinian officials in Cairo said that a US proposal to resolve the stalemate remained alive and offered hope for an acceptable solution.



Palestinian deportees, trapped in no man's land in south Lebanon, at noon prayers yesterday

Unemployment will dominate G7 meeting

By Peter Norman in London, Charles Leadbeater in Tokyo and George Graham in Washington

THE PROBLEMS of rising unemployment in the industrialised world and the sharp economic downturn in Germany and other continental European countries are set to dominate today's informal meeting of Group of Seven finance ministers in London.

According to officials who have prepared the meeting, the talks are expected to see some tough questioning of Germany's tight monetary policy, Japan's sharply rising trade surplus and the US attitude to trade and currencies in an attempt to iron out obstacles to world economic growth.

Although Mr Norman Lamont, the UK chancellor of the exchequer and G7 host, is satisfied that UK monetary and fiscal policies are contributing to global growth, a Canadian government official yesterday said that the UK would be warned against allowing its public sector borrowing requirement to continue rising sharply.

"He has got to act on the

fiscal side," the official said. But Mr Lloyd Bentsen, the US treasury secretary, will be the centre of most attention when the ministers and central bank governors from the US, Japan, Germany, France, Britain, Italy and Canada begin their discussions.

The US wants its allies to give priority to growth, is anxious to revive G7 co-operation and wants a discussion of Russia's economic problems. It believes that it will have more leverage in the talks following President Bill Clinton's plan to cut the US budget deficit.

"I think the US will be in a substantially stronger position than it has been in many years because it is putting its house in order, it is responding to pressure from abroad, and its own economy is picking up," a US treasury official said shortly before leaving Washington.

For their part, America's allies want assurances that the Clinton administration is not protectionist and that it will support the Uruguay Round of trade liberalisation talks.

The impasse in the trade talks is regarded by some G7 officials as an important factor that has undermined the

group's credibility as a forum for international co-operation.

The Japanese government will be seeking an explanation of Mr Bentsen's recent comments in favour of a strong yen, which have been largely responsible for the yen's sharp rise against the dollar over the past week. Yesterday it signalled its mounting frustration with the US administration's failure to clarify the remarks.

Speaking to the Japanese parliament, Mr Kiichi Miyazawa, the prime minister, warned that a rapid appreciation of the yen against the dollar could "derange" the Japanese economy by hitting exporters.

Mr Yoshiro Mori, the outspoken minister of trade and industry, warned that the yen's appreciation threatened to choke off what little growth was left in the flagging Japanese economy.

Yesterday it appeared that the US would try to smooth over the row. Before leaving Washington one of Mr Bentsen's officials called his comment "an off-hand remark". He added that Mr Bentsen "explicitly rejected a strategy of driving down the dollar".

Russian government seeks 10% export tax

By John Lloyd in Moscow

THE Russian government is demanding a new, 10 per cent tax on all exports in an effort to raise funds to pay off the \$90bn debt it inherited from the former Soviet Union.

The demand is a measure of the desperate straits in which the government finds itself - faced with massive tax evasion and a rapid fall in income as production and living standards continue to plummet.

Internal government estimates show that over the past year, a gap of between \$10bn and \$15bn opened up between the volume of goods exported and what the government should have received in existing export taxes from their sale. At the same time, the precipitous fall of the rouble against hard currencies has meant that the government must now again subsidise imports, to the tune of half of the credit created each month.

Mr Vasily Baranov, proposing the new tax in the parliament yesterday, also said that the budget deficit would rise to at least 8 per cent of gross domestic product in this year, up from a previous estimate of 5.15 per cent.

However, the real budget deficit, according to conventional accounting standards, is reckoned to be running at around 20 per cent - without counting the again-soaring inter-enterprise debt, now standing at Rb54bn.

Russian exporters, already faced with a variety of export taxes depending on the commodity exported and also requiring to pay a 20 per cent value added tax and profit taxes, are among the most heavily taxed traders in the world. Non-payment of taxes through moving hard currency accounts offshore is a national habit, however - thus compounding the government's problems in raising hard currency.

Russian shipping chief is arrested

THE head of one of Russia's biggest state-owned shipping companies has been arrested in the first high-level crack-down since President Boris Yeltsin declared war on crime and corruption last month, reports Leyla Boulton in Moscow.

Mr Viktor Kharchenko, head of the Baltic Shipping Company in St Petersburg, is accused of stealing at least \$30,000 from the company.

Go-ahead for dam

Portugal is to go ahead with an Ec295bn (£1.4bn) irrigation and hydro-electric project to build a dam that will create Europe's largest man-made lake at Alqueva, in arid land close to the Spanish border, Peter Wise reports from Lisbon.

Mr Anibal Cavaco Silva, the Portuguese prime minister, said the project would not be financially viable, and Portugal would seek EC funding.

Aid for Ankara

Britain is to make a £22.7m grant to help fund a \$650m metro project in the Turkish capital, Ankara, being built by a Canadian-UK consortium, writes John Murray Brown in Ankara.

The grant, disbursed under the UK's Aid and Trade Provision, will be used to cover 38 per cent of the value of work of British contractors, GEC and Westinghouse UK.

BJP protests

India's parliament came to a standstill yesterday when the right-wing Bharatiya Janata Party and the government clashed over the police role in halting a BJP rally on Thursday, Reuter reports from New Delhi.

Police tear-gassed crowds and detained 1,000 people including BJP leaders.

Another 3,900 US aircraft jobs to go

By Laurie Morse in Chicago

GE Aircraft Engines, an arm of the General Electric Company and a major supplier to commercial and military aircraft manufacturers, said yesterday it was cutting its workforce by more than 10 per cent.

The move, another symptom of the poor health of the US aircraft industry, follows heavy job cuts by Boeing last week.

GE Aircraft, which sells engines for air, marine, and industrial use, said it would cut 3,900 from its workforce of 33,000. The cuts are planned across operations, with about 2,500 at its headquarters in Evendale, Ohio; 700 at its plant in Lynn, Massachusetts, and 700 at smaller facilities around the US.

In addition to an airline

slump, GE Aircraft is also feeling the effects of recent US military budget cuts.

"Our commercial customers have suffered unprecedented losses in the last three years, and engine and spare parts orders are down," said Mr Brian Rowe, president. "Those difficulties and continually changing customer needs require these cost actions," he said.

The company said the reductions would be made as much as possible through attrition and voluntary job elimination programmes.

GE Aircraft Engines had revenues of \$7.26bn (\$3.12bn) in 1992, compared with General Electric's overall sales of \$63.3bn. A General Electric spokesman said GE Aircraft had operating earnings of \$7.7m in 1992.

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NEWS: INTERNATIONAL

S Korea promotes political reformers

By John Surton in Seoul

MR Kim Young-sam, the new South Korean president, yesterday appointed a combination of bold political reformers and cautious economic bureaucrats to his cabinet.

Many of the 24 ministers came from outside the political establishment. They include academics and former opposition politicians who served with Mr Kim before he joined the ruling Democratic Liberal Party in 1990. The reformers mostly fill politically sensitive positions, such as head of the intelligence agency, as part of Mr Kim's programme to remove the last vestiges of the former military dictatorship.

The key economic agencies, however, are occupied by bureaucrats, who indicated they will resist rapid economic deregulation.

"We will seek reforms in a gradual way that will not invite bad effects," said Mr Lee Kyung-shik, who becomes head of the Economic Planning Board. Mr Lee was an EPB official and presidential adviser during the administration of President Park Chung-hee, when economic policy was dominated by central planning.

He then became a senior executive at Daewoo, the country's fourth biggest conglomerate, during the 1980s and is now president of the state-run Korea Gas Corporation.

Although he favours the reduction of bureaucratic controls on industry, he added that he did not support "the rash implementation of financial deregulation".

Mr Hong Jae-byung is the new finance minister and a former bureaucrat in the ministry. He is now chairman of the state-owned Korea Exchange Bank and was the president of the Export and Import Bank, another government bank.

Mr Hong also favours a cautious approach to financial liberalisation and is likely to resist foreign demands, particularly from the US, for more rapid market-opening measures.

Patten loses support in Hong Kong

By Simon Houghton in Hong Kong

GOVERNOR Chris Patten's position in Hong Kong weakened perceptibly yesterday when his supporters turned on him for delaying publication of legislation which, if enacted, would make elections in the colony more democratic.

The delay has left Mr Patten exposed to the accusation of acquiescing to Beijing's demands for him to abandon his package. Hong Kong's pro-democracy politicians accused Britain of selling out Hong Kong in the wake of the decision announced on Thursday.

Mr Patten was due to gazette his legislation by the end of this month but drew back in the hope China would agree to talks on Hong Kong's political future.

His decision was, however, greeted enthusiastically by Hong Kong's stock market - the Hang Seng Index rose 148.11 points to close at 6,351.99 - and won support from the colony's conservative politicians.

Mr Martin Lee, leader of the United Democrats, said the UK had lost the negotiating battle with China before it had begun. He said the people of Hong Kong knew who lost

every time Britain and China sat down at the negotiating table. "Have you ever seen the British winning anything by negotiations with the Chinese government?" he said.

The Hong Kong Economic Journal, the colony's leading business newspaper and long-time supporter of Mr Patten, sharply criticised him for deferring publication of the legislation. He was "naïve to the point of folly" in believing that this gesture would help him secure an agreement with Beijing, the paper said.

However, Mr Patten's decision won approval from the Co-operative Resources Centre

(CRC), a conservative political grouping close to the colony's business community and Beijing. Mrs Selina Chow, a leading CRC member, said it was a "hopeful sign" that talks might eventually be held.

Hong Kong's Beijing-controlled press published conflicting reactions to Mr Patten's decision. Ta Kung Pao, which is regarded as the most reliable mouthpiece, published a tough commentary which laid down four conditions for talks which appeared to British diplomats to be designed to prevent dialogue.

It said Britain should agree to talks about the 1994-95 elections based on past understandings; it should agree not to publish Mr Patten's bill until agreement was reached; it should include no "third party" that is Hong Kong, in the talks; and any agreement reached should be binding and unable to be amended by "area councils," that is, the Legislative Council.

China sees growth continuing at 8%

By Tony Walker in Beijing

CHINA expects to sustain economic growth of about 8 per cent annually to the end of this century. This would bring the Chinese economy within range of becoming the world's biggest within two decades.

Mr Gan Ziyu, vice minister of the state planning commission, said yesterday that China's goal of quadrupling 1980 gross national product by the year 2000 - a target that was derided by many economists when it was unveiled - would be realised earlier.

China's extraordinary economic surge has forced a review of growth targets in its current five-year plan (1991-95), which had envisaged growth of some 6 per cent annually.

Mr Gan, in a briefing with reporters, dismissed suggestions that the economy was overheating, saying it would continue to grow in a quick-paced but sustainable manner.

The Chinese official said the government would "fine tune" the economy to achieve sustainable rates of growth. This would be done by restricting

credit and restraining growth in the money supply.

China registered real GNP growth last year of more than 12 per cent, exceeding both the planned 6 per cent for 1992 and the 9 per cent average of the past 13 years. Economic activity shows little sign of slackening this year.

China's economic boom - growth may have been much higher in 1992 than officially acknowledged - has prompted a sharp debate within the Chinese leadership about the dangers of runaway inflation caused by excessive demand.

Bank lending increased last year by double the planned figure, money in circulation doubled, and the broader measure of money supply (M2) charged ahead by 28 per cent. Inflation in the large urban centres reached 14 per cent compared with a national average of about 6 per cent.

Mr Gan, meanwhile, added that China planned to import an average of \$700-\$800bn annually of technology, machinery and raw materials in the present five-year plan.

American troops come under fire as 100 die in fighting between rival clans

US to go ahead with Somalia pull-out

THE US military said yesterday it was going ahead with plans eventually to withdraw 3,000 troops from Somalia despite riots and gun battles that rocked Mogadishu in the past four days, Reuters reports from Mogadishu.

But about 1,000 of those troops, now deployed in the southern city of Kismayu where rival militia fought on Monday, would remain for some time, army captain Ed Loomis said.

About 100 people have died in Kismayu this week, according to the French medical aid agency, Médecins Sans Frontières.

Earlier yesterday US military spokesman Colonel Fred Peck said the planned troop pull-out was on schedule "despite events in the past 72 hours".

He was referring to violent protests in Mogadishu by supporters of warlord Mohamed Farah Aideed, who accused the American-led forces of backing his rival, Mohamed Said Hersi, known as Morgan. The US military denies the charge.

The protests were followed by gun battles on Thursday between the multinational forces and bandits in Mogadishu. There was a similar but brief clash yesterday.



Two Somalis run for cover past a US Army Humvee as gunfire erupts in Mogadishu again

The violence, the worst since the task force started arriving in December to stop bandits looting food aid, had forced Washington to delay the

withdrawal from Monday of the 3,000.

The US has about 18,000 troops in Somalia.

The rest of the Americans should be home by April, when the United Nations is expected to have taken over command of the task force of troops from 23 nations.

Industrial production in Japan falls again

By Charles Leadbeater in Tokyo

THE JAPANESE economy's weakness was underlined yesterday by official figures which show that industrial production is continuing to fall, while the growth in bank lending remains sluggish.

Industrial production fell by 0.3 per cent in January from the previous month to stand 7.6 per cent below its level in January last year, according to a report from the industry ministry.

However the monthly rate of decline in industrial production has slowed significantly since the autumn, when it was falling at a month-on-month rate of 2.9 per cent.

The financial authorities regard industrial production as an important indicator of the prospects for economic recovery.

They believe it will reach its trough this quarter, paving the way for a gradual pick-up in investment.

Meanwhile, bank lending is still growing at an extremely low rate. Japanese banks' outstanding loans were 2.2 per cent up at the end of last year on the year before, according to the Bank of Japan.

Mounting pressure on industrial companies to cut costs to boost profitability was underlined by KDD, the telecommunications operator, which announced plans to shed 800 jobs in the next five years to reduce its workforce to 5,000. The company is just completing a programme to cut 1,000 jobs.

Earlier this week Nissan, the car maker, and NTT, Japan's main telecommunications group, announced plans to cut 35,000 jobs within three years.

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Singapore budget will cut taxes

By Kieran Cooke in Singapore

SINGAPORE'S budget for 1993, announced yesterday, proposes big fiscal changes, with a 3 point cut in corporation tax to 27 per cent and similar cuts in personal taxes, with the top rate reduced from 33 to 30 per cent.

Dr Richard Hu, the finance minister, said the main thrust of the budget was to maintain Singapore's competitiveness as an investment location, while encouraging Singaporeans to invest more in the region and develop an external "second pillar" for the economy.

"Our challenge is to claim a bigger piece of that fast growing economic pie in the region," said Dr Hu.

The incentives include tax credits for overseas dividend income and tax exemptions for venture capital and regional investments funds. "Individuals will be encouraged to take part in risky but highly profitable ventures, knowing that if they dare and succeed, government will not cream off a large share of their rewards," said Dr Hu.

Analysts said the government was clearly hoping that the tax cuts and a range of additional benefits would reduce public concern about rising living costs. Spending on medical and education schemes to benefit the poor is to be substantially increased.

The government plans to introduce incentives to widen share ownership in the run-up to the partial privatisation of the telecommunications utility later this year. Singaporeans are also given a 5 per cent income tax rebate for 1993.

Dr Hu said a recently announced 3 per cent goods

and services tax will only partially make up for the drop in revenues resulting from the budget's tax cuts and incentives package in the short to medium term.

Analysts say the budget reflects Singapore's confidence in its fiscal position. Since 1987 Singapore has been running a budget surplus. 1993 revenues are estimated at \$817.2bn (\$7.3bn) while expenditure is budgeted at \$815.5bn.

Singapore's economy grew by 5.5 per cent last year. Up to 7 per cent growth is expected this year.

MONTHLY AVERAGES OF STOCK INDICES				
	February	January	December	November
FT-SE Actuaries Indices				
100 Index	2840.2	2790.3	2778.0	2712.9
Mid 250	3025.3	2912.1	2738.3	2598.3
350 Share	1402.4	1371.7	1349.4	1310.4
Industrial Group	1440.31	1425.47	1401.49	1351.58
500 Share	1522.74	1498.94	1473.45	1425.57
Financial Group	845.61	885.10	853.88	844.43
All-Share	1385.0	1351.60	1324.07	1294.96
Eurotrack 100	1121.55	1082.38	1057.70	1047.08
Eurotrack 200	1179.34	1158.79	1138.57	1112.27
FT Indices				
Government Securities	95.77	93.88	93.89	94.27
Fixed Interest	111.41	109.20	108.89	108.98
Ordinary	2185.2	2161.9	2115.2	2023.1
Gold Mines	82.7	83.1	86.8	87.8
SEAQ Bargains (5.00pm)	32.641	31.838	24.158	27.338
Highest Close Feb				
FT-SE 100	2873.50 (30p)	2812.20 (16p)		
FT-SE Mid 250	3051.40 (30p)	2988.20 (16p)		
FT-SE 350	1418.50 (30p)	1390.00 (16p)		
FT-A All Share	1395.63 (30p)	1373.41 (16p)		
Ordinary	2228.10 (30p)	2171.30 (16p)		
Lowest Close Feb				

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The relationship between banks and small businesses is in upheaval. With 80,000 company failures last year and a similar number forecast for 1993, lenders are seeking a fresh approach to overdrafts, loans and equity finance. FT writers assess the lending pressures on both companies and banks

Lessons of the 80s spark policy review

HIGH STREET banks are reviewing their policies on lending to small and medium-sized businesses as the size of problems from their 1980s lending strikes them. This is leading to some fundamental changes in policy.

One change is that banks are becoming more restrictive in the overdraft facilities they offer. Because many of these overdrafts were used as a substitute for equity capital in the 1980s, banks are now encouraging fixed-term loans instead.

Such changes have led to fears of a "credit crunch" for small businesses, but banks deny that they are withdrawing credit. They say they are merely trying to ensure that loans are used for working capital rather than equity.

Banks argue that small business lending is more risky than they had appreciated before. They believe they require a combination of higher pricing and more information on how loans are used if they are to remain in the market.

Fixed-term loans are useful as a monitoring tool because a bank can see immediately when interest payments are not met, rather than having to watch movements in overdrafts closely to detect underlying patterns of cashflow.

Mr Brian Pearce, chief executive of Midland, this week tried to stimulate a debate about small business financing by arguing that the government, banks and businesses had to

form a partnership to stimulate new forms of equity finance. Mr Pearce's suggestions included a £27m "loan support scheme" to provide subsidies to cut the price of banks' medium and long-term loans to 1 percentage point over base - rather than the current 2 per cent to 3 per cent.

He also argued that this scheme for manufacturing industry could be supplemented with a "manufacturing support scheme" which would try to attract individuals to offer equity capital to small, local companies by giving them tax breaks.

Mr Pearce believes financing for small companies in Britain should be re-thought in comparison with countries such as Germany, where only 14 per cent of small business debt is in overdraft form, compared with 58 per cent in Britain.

Ms Jane Bradford, National Westminster's head of small business services, says banks are increasingly limiting small businesses' access to overdrafts because of their experience with bad debts from lending in the 1980s.

"Small businesses have been over-reliant on overdrafts. They have met long-term financing needs with short-term borrowing," says Ms Bradford, whose bank is lending about £11bn to small businesses.

The confusion has proved problematic for NatWest as it tries to clear up a mass of poor lending which originated in

the late 1980s. It has found that many overdrafts in theory provided for working capital have turned into loans.

NatWest is - with Barclays - one of the two biggest lenders to small businesses. Some 55 per cent of the bank's lending in the sector is in the form of overdrafts, and 45 per cent in loans with fixed terms.

The bank's problems with small business lending were shown this week in its 1992 results. Of a £1.3bn provision for bad debts on lending in its UK branch business 47 per cent related to loans of less than £50,000.

It is now trying to limit overdrafts to cases where they are clearly going to be used to day-to-day working capital. It wants businesses to accept term loans, often on fixed interest rates, for machinery, premises and vehicles.

NatWest is also trying to clean up permanent overdrafts by converting them into loans. It regards clearly defined forms of lending as essential to allow the bank to monitor what happens to its money more closely.

NatWest says businesses seek overdrafts believing they will be cheaper because of their flexibility. Many have been unable to reduce overdrafts because cashflow has not met projections.

A report on equity finance will appear in next week's UK Companies Pages.

John Gapper

Blaming a bank when all goes sour

BILL BOWLING'S world disintegrated in January. He lost his construction business and now faces losing his home.

Like many businessmen who have called in receivers the former chairman and majority shareholder of Clayton Bowmore blames a bank.

He says National Westminster's decision to cut the overdraft limit for his Yorkshire-based company from £550,000 to £250,000 created a cashflow crisis it could not survive. NatWest denies its actions were precipitate. As far as it was concerned Clayton Bowmore was another casualty of the recession - a victim of over-expansion and poor cashflow.

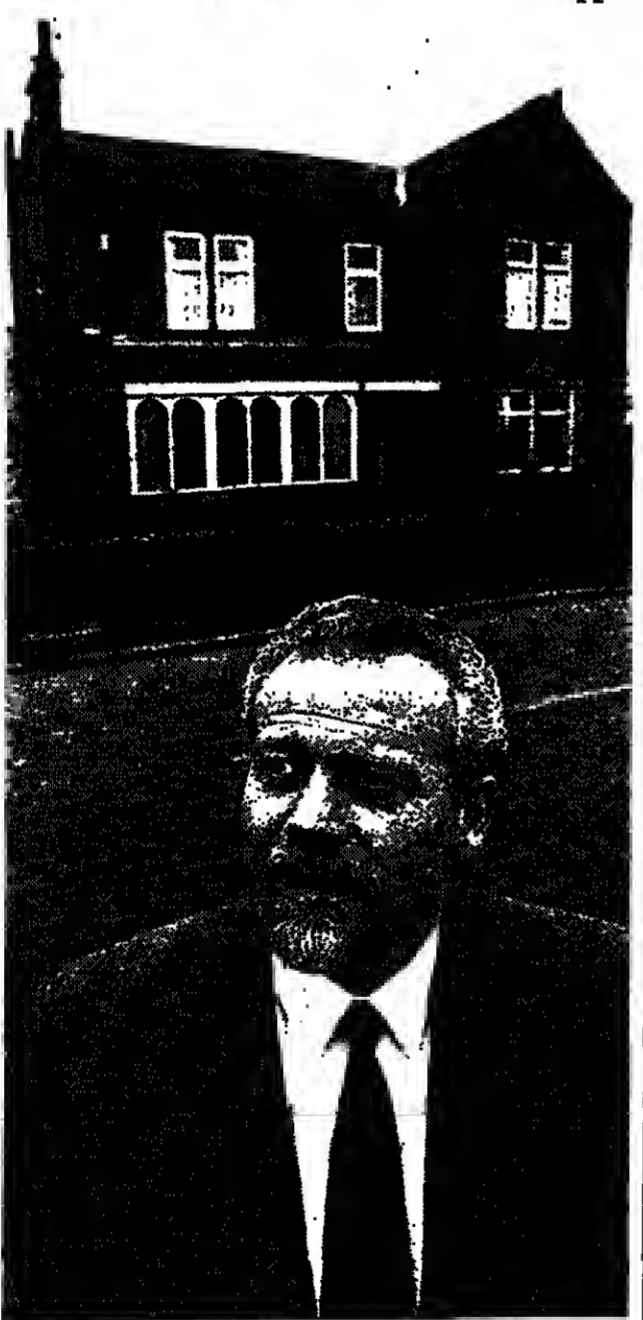
The bank says: "We asked accountants KPMG Peat Marwick to prepare two reports on the company last year. The second concluded the company was insolvent. An independent insolvency practitioner, already working with the company, said that the business would require more money to survive."

Mr Bowling says the bank pulled the plug even though the company had negotiated sales that would have enabled it to repay £400,000 of its £2.2m borrowings.

Mr Bowling, who had given a personal guarantee of £300,000 against bank loans, argues the company's gearing was no worse than many publicly-owned construction companies. "The book value remained marginally greater than the bank debt even after the savage write-downs recommended by KPMG, which have been appointed receivers," he says.

The rise and fall of Clayton Bowmore mirrors the experiences of many companies during the recession. It was formed in November 1975 with just £100, a Morris van and a lot of optimism. Within four years annual turnover had reached £8m. During the 12 months to the end of March 1992 the group made a £250,000 pre-tax profit on a £18m turnover. The seeds of its destruction, however, were sown with the move into house building in the late 1980s.

For a while all went well. House prices and sales remained stronger in northern England than in the south. NatWest, however, was concerned and asked KPMG to prepare its first report, which included a substantial write-down on book values. Work in progress was valued at zero,



Former Clayton Bowmore chairman Bill Bowling says his company collapsed after his bank cut the overdraft limit

debtors were included at 50 per cent of book value and property and land values cut, according to Mr Bowling. KPMG reduced its estimates even further in the second report. Mr Bowling says such treatment could be justified only if the company had already been judged unviable.

KPMG says Mr Bowling's reaction is understandable, but stand by its judgment. According to the accountants, the recommendations on ways to reduce overheads were largely ignored by the company, which underestimated its likely losses for this financial year.

The countdown to collapse started on September 15 when the government raised base rates to 15 per cent. "That day we lost five houses worth a total of £250,000," says Mr Bowling. The company, which had been expecting a sale a week, has made fewer than

six since Black Wednesday. On the morning of January 15 the company received a payment for more than £300,000. It immediately posted cheques worth more than £150,000 to suppliers. "At 4.15pm the bank rang to say it was reducing our overdraft facility by the exact amount of the payment we had received," says Mr Bowling.

NatWest says it warned the company that it retained the right to reduce the overdraft limit by the amount of any cheques received. Mr Bowling says: "NatWest ignored by the company, which had sent out. Word got round and the client stopped the £300,000 cheque before it had time to clear. So nobody gained."

On January 27, with insufficient cash to pay wages, the receivers were called in.

Andrew Taylor

Tougher scrutiny faces borrowers

JOHN FARMER, owner of PKI, an expanding coatings company in Chester, has mixed feelings about banks.

He abandoned Lloyds after a dispute about his overdraft. "We changed to Barclays, but I decided to get out of the hands of the banks as far as financing growth was concerned."

Today PKI has a £1.25m turnover and is growing at 35 per cent a year. The workforce at the company, which coats plastic components in imitation gold and silver, has grown from 45 to 60 in two years.

Like many small businessmen Mr Farmer wanted a flexible overdraft facility because it offered easier access to working capital than a loan.

He turned to Barclays after Lloyds declined to increase his overdraft limit to £180,000 and tried instead to set a £125,000 limit with higher charges. Although Mr Farmer now has an overdraft limit of only £50,000 at Barclays, he has continued expanding by using an intermediary finance house.

The finance house - Griffin Factors, a subsidiary of Midland Bank - agreed to offer PKI debtor discounting, a system of speeding cashflow. At the end of each week Griffin sends Mr Farmer a cheque for 80 per cent of his invoiced

sales. He pays Griffin when PKI is paid by its customers.

The cost of what is, in effect, increased working capital works out at 2 per cent over base rate, compared with 2½ per cent for his overdraft. Administration costs on his Griffin contract are less than the ½ point difference, while his personal guarantee - his own risk - is only on the overdraft.

Taking advantage of such facilities represents an important shift from the 1980s when overdrafts were calculated by formula: 70 per cent of assets, plus half the value of the money owed to a business by its customers.

Grahame Elliott of Stoy Hayward, PKI's auditor in Manchester, says: "Everything is a case by case situation now."

The changing relationship between banks and small companies is summed up by Paul Davidson, managing director of Bolton Business Venture, an enterprise agency advising small businesses. "There are no formulae now. Information is crucial. The banks are carrying out validation of sales forecasts, making quarterly visits, and demanding monthly management accounts."

"We had a meeting with local bankers to see if they had

altered their criteria for lending. They all said they had a surplus of funds and were anxious to do deals, but that the quality of proposals was weak."

The banks' new approach is raising questions among accountants and advisers about whether small businesses will get the working capital many need to ride the expected economic upturn. Such capital is necessary to help companies avoid overtrading - not having the cash to pay wages, creditors and interest charges quickly enough to stay in business because finances are tied up in stocks, work-in-progress and debtors.

John Evans, a Birmingham interior designer, says: "Business in the last three months has come back with a vengeance. But the banks won't finance you and they won't release the money. It's not the price of it that's the problem, it's getting it."

Responses are, however, patchy. Many accountants say banking facilities can vary widely according to lending terms drawn up by managers with different attitudes to small businesses.

Access to funds has not been a problem for Jim Mundell, chairman of United Forgemas-

ters in Dudley, whose forging group has taken on more workers to cope with increased orders. "We are getting money at a sensible price," he says. "There has never been so much money flowing around the system. It is there because people are taking a more responsible attitude to how they're doing their lending."

His view is echoed at UKPS, an environmental engineering company on the Warwick University Science Park. It has changed clearing banks twice in the last 15 months - from National Westminster to Royal Bank of Scotland then to Barclays. "There are problems but we are not hard up. When we need more flexibility we can negotiate," says Robert Eden, the managing director.

Accountants say that in some cases banks have reduced overdraft ceilings to match the new balances created when debtors have made payments.

Mr Elliott, auditor at the PKI, said: "If values of property now start rising and businesses start doing better, there is a danger some banks will pounce to recoup loans by shutting companies down to realise the assets."

Companies should protect themselves against such eventualities by negotiating with

the banks before embarking on expansion, according to one Glasgow accountant.

"It's no good taking a lot of new orders and then going to the bank to ask them to finance an increase in turnover. You've got to get the bank lined up first," he says.

"The banks are realising that some companies with high working capital needs are going to have major problems coming out of recession."

Many accountants believe the attitude of the banks could force small businesses to seek alternative funds from Britain's venture capital industry, which is estimated to have reserves of more than £1bn.

Banks say they are into "relationship lending" and insist no sound business will be starved of working capital.

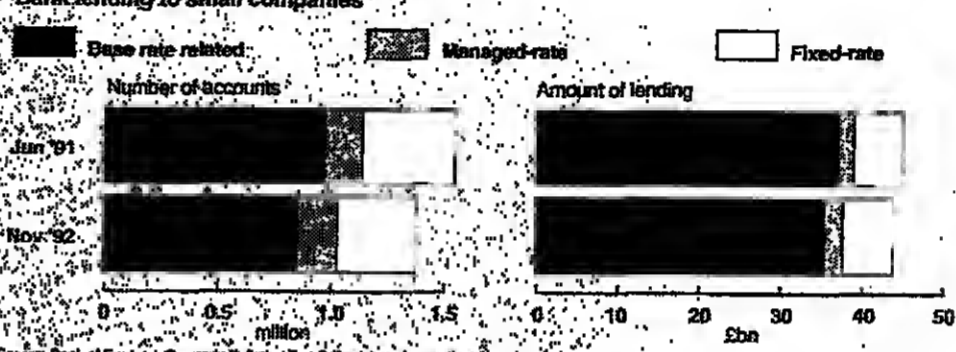
They say there will be tougher scrutiny of why businesses want money. Overdrafts will be available for working capital only. Risk capital for new ventures might have to be sought elsewhere.

But one banker warned: "It's going to cost more. Scrutiny is going to push up charges."

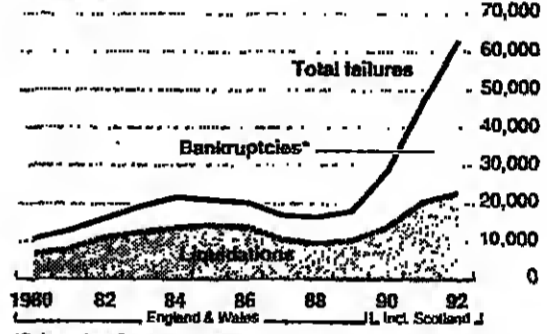
Ian Hamilton Fazey
Paul Cheeswright
James Buxton

UK business failures

Bank lending to small companies



Failures



Sources: Bank of England, Quarterly Bulletin; Dept of Registered Companies; Sole traders & partnerships

England & Wales; Scotland

3

YOUR KNEES ARE LOOKING FORWARD TO MARCH 28 AND THE NEW SPACIOUS SWISSAIR BUSINESS CLASS FOR EUROPE. MOVE YOUR KNEES FROM SIDE TO SIDE - THEY'LL DISCOVER MORE ROOM, MORE FREEDOM. AND WHEN YOU CROSS YOUR LEGS, YOU WON'T MAKE THE PERSON NEXT TO YOU CROSS.



Smith sees threat in jobless toll

By Alison Smith

LABOUR'S onslaught on the government over the recession intensified yesterday as Mr John Smith, the party leader, issued a stark warning that unemployment was reaching levels that posed a serious social threat.

Mr John Major, the prime minister, was yesterday once again upbraided about the economy, saying he thought people might be inclined to spend again now they had repaid debts incurred a few years earlier.

"It could be that the tide is turning, but it is too early to say how profound that change is," the prime minister said.

But Mr Smith insisted that "second-hand assurances" from Mr Major that the economy was on the brink of recovery were failing to convince people. Speaking in Cardiff, he warned that unemployment was reaching "an extremely dangerous level".

"It is beginning not only to menace our prospects of economic recovery, but we are on

the edge of having serious social problems," he said.

As the opposition sought to capitalise on unease about government performance, suggested by opinion polls, such as that in the Times yesterday, which gave them a 12 point lead, all three main parties are turning their minds to the forthcoming by-election at Newbury.

The seat, held by the Tories with a majority of about 12,000 against a Liberal Democrat challenge at the general election, will offer the first test of how far the continued economic recession has turned opinion against the Conservatives since last April.

With the return of Mr Major the Tories will use their local government conference today to seek to regain the political initiative and steady the nerves among their supporters.

Sir Norman Fowler, the Tory chairman, will lead the offensive with a return to the theme of law and order and an attack on opinion pollsters, based on their poor performance in last year's election campaign.

Labour seeks talks on terror law

LABOUR OFFERED yesterday to discuss reform of the anti-terrorism laws with the government, Alison Smith writes.

Mr Kevin McNamara, shadow northern Ireland secretary, said: "It is time to build a new understanding between the parties."

The Tories have argued that Labour's refusal to support the existing prevention-of-terrorism measures shows that the party is not serious about fighting crime in general. The annual order renewing these measures - condemned by Labour as harsh and ineffective - will soon go before the Commons.

Mr McNamara said talks with the government should include ending orders which exclude people from Northern Ireland or Great Britain.

Mr Kenneth Clarke, home secretary, said it would be "irresponsible" during an IRA mainland campaign to remove the power to issue exclusion orders.

BNF is fined

BRITISH Nuclear Fuels was fined \$5,000 yesterday for four breaches of safety conditions at its Sellafield, Cumbria, site in April last year although no radiation escaped.

The prosecution, brought by the Nuclear Installations Inspectorate, said that BNF had made unauthorised modifications to the plant which vitrifies nuclear waste.

BA meets Virgin

BRITISH Airways and Virgin spent another day in talks yesterday trying to conclude an agreement to end their "dirty tricks" dispute. In spite of hopes that the negotiations would end on Thursday, the two sides were still meeting last night.

Yarrow vote

WORKERS at the Yarrow shipyard in Glasgow yesterday rejected a new pay offer and voted to continue their three-week-old strike. The offer would have given the 1,300 strikers a 3.8 per cent increase on the basic wage of £227 a week and a £300 lump sum payment.

Print talks

NEGOTIATIONS between the British Printing Industries Federation and GPMU print union broke down yesterday after union representatives rejected a 1.7 per cent pay offer.

The employers' organisation said agreement had been reached on issues including full flexibility of working in integrated press rooms and the abolition of overtime bonuses.

Scottish yard cuts most of workforce

By Andrew Taylor

McDERMOTT, the US owner of the Ardara off-shore fabrication yard near Inverness, one of northern Scotland's biggest employers, is to make most of its remaining 500 workers redundant.

The yard, which employed 3,500 workers 18 months ago, will run out of work on Monday when it is due to complete a contract for part of a North Sea production platform.

McDermott says that Ardara will then move to "little more than care and maintenance". By the beginning of April the yard is expected to employ only about 75 people. More than half of the jobs are to go next week.

The redundancies are the latest in a series of job losses to fabrication yards in Scotland

and north-east England. This month the Offshore Manufacturers' and Constructors' Association estimated that the number of workers employed by off-shore fabricators, including sub-contractors, had halved to 10,000 since September.

Manufacturers are forecasting a further 3,000 job losses over the next few months as investment in North Sea exploration continues to dwindle in the face of low oil prices and low demand.

The association has warned that job losses could rise even further if the government reduces investment in gas-fired power station projects to boost coal sales as part of its energy review.

McDermott insisted it was maintaining its commitment to the yard in which it invested £25m in 1986.

Kasparov and Short reject Fide match

By Ian Hamilton Fazez, Northern Correspondent

GARY KASPAROV and his British challenger Nigel Short have refused to play their world chess championship match in Manchester and are setting up a rival organisation to Fide, the international chess federation, to stage their own version of the event.

Mr Kasparov and Mr Short said they would play for the championship under the auspices of the Professional Chess Association. They would give 10 per cent of the prize fund to set up the association.

Manchester City Council said the dis-

pute was between Fide and the players. It hoped problems would be resolved quickly so plans could continue to stage the match to August. Fide refused to comment before it had confirmed a statement issued by the players in London yesterday.

This claimed Fide had shown "wilful disregard" by not consulting the players about accepting Manchester's bid, as Fide claimed on Tuesday it had. The statement was issued by Simpson's-in-the-Strand, the London restaurant which is a traditional centre for chess.

But Mr Ray Keene, a British grandmaster who is chess correspondent of The Times and an adviser to Mr Kaspa-

rov, said it had been prepared with the players' collaboration by himself and Mr Dominic Lawson, editor of The Spectator, Weekend FT columnist and an adviser to Mr Short.

Mr Lawson said last night: "Nigel Short was on a boat between Italy and Greece when Fide announced its decision. He had specifically said he wanted to study all the bids, which he was not allowed to do. He was presented with a fait accompli. Players at this level will not be treated as pawns."

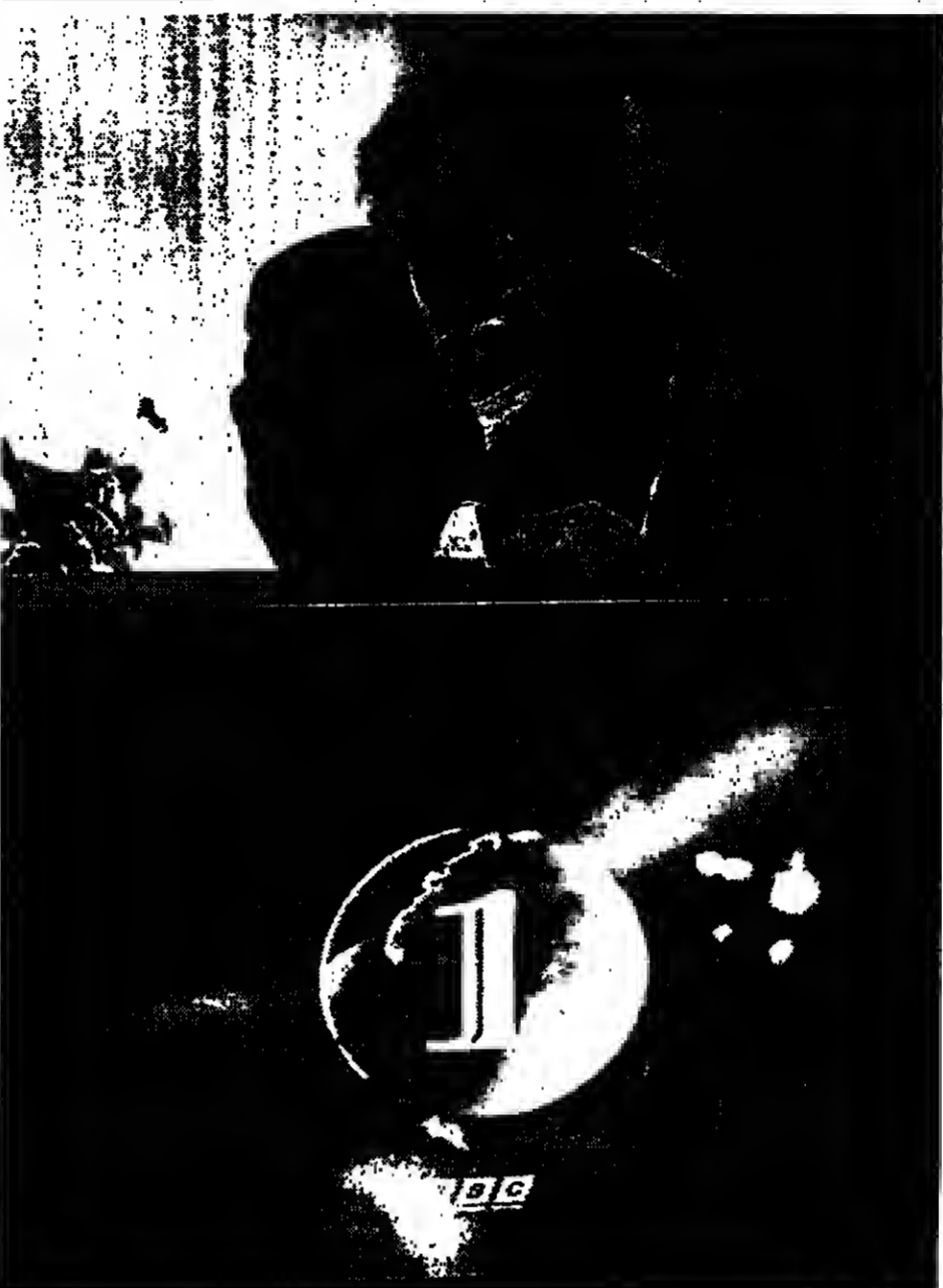
Mr Keene said: "This has been coming for years. Many players do not like the way Fide runs things. We are confident all the world's leading profes-

sionals will join the new association."

The players yesterday invited new bids for their match. Mr Keene said the London Chess Group - a group of businessmen supporting the game and co-ordinating a public relations group - had yesterday confirmed it would bid again after losing to Manchester.

Manchester wants the match but is unlikely to bid for fear of antagonising the International Olympic Committee by going against an official international umbrella organisation for a sport, even though chess is not to the Olympics.

Chess, Weekend Page XXI



Alan Yentob said yesterday that his main task at BBC1 would be to offer viewers a genuine choice

BBC2 chief is appointed as controller of BBC1

By Raymond Snoddy

MR ALAN YENTOB, the controller of BBC2, was yesterday appointed controller of BBC1.

It is the first time since 1965 that the person in charge of the corporation's minority channel has gone on to run the BBC's more mainstream television channel.

One of his early tasks will be to decide what to do about Eldorado, the soap opera set in Spain which was commissioned by his predecessor at BBC1, Mr Jonathan Powell.

Yesterday Mr Yentob said he had failed in ratings terms. "It doesn't seem to have done the business," he said, although he

would not be drawn on the soap's fate. Seven or eight candidates were assessed for one of British broadcasting's most attractive jobs.

According to Mr Will Wyatt, managing director of network television, only Mr Yentob, 46, went before a sub-committee of the BBC governors on Thursday evening.

All the signs are that Mr Yentob, controller of BBC2 since 1988 and regarded as a considerable success, did not initially apply for the job.

"I decided that I wanted to do it and I do want to do it," he said yesterday.

Programmes introduced during Mr Yentob's time at BBC2

have ranged from The Late Show, The Second Russian Revolution and Troubleshotter to comedy such as Harry Enfield and French and Saunders.

Mr Yentob will be the senior programme controller and will deputise for Mr Wyatt on all editorial matters.

He said his main task would be to offer the audience a genuine choice, although he supported the emphasis Mr John Birt, the director-general, was placing on the BBC producing "distinctive" programmes.

A new BBC2 controller will be appointed in three or four weeks, Mr Michael Jackson, the present head of arts programmes, is seen as a strong candidate.

Airport security to be tightened

By Ian Hamilton Fazez

TOUGH new baggage security measures for all British airports were announced by the government yesterday.

The measures will eventually ensure that all hold baggage will be X-rayed and every piece of luggage put on board an aircraft will be matched to a passenger.

Lord Calthness, the transport minister, said a directive setting out the scheme to match baggage would be issued by the end of June. He hoped it could come into effect by the end of the year.

Unaccompanied baggage or any item that could not be accounted for would be subjected to stringent security controls before it was authorised to be carried, he said.

Lord Calthness, who was attending a transport department aviation security symposium near Manchester Airport, said the total screening of hold baggage by special X-ray machines would take three to three-and-a-half years to introduce. This cost of the exercise is

understood to be the main reason for phasing.

Manchester Airport's £265m Terminal 2, which opens next week and has state-of-the-art equipment, 27 of the new X-ray machines for which it paid more than £2m. Mr David Teale, technical services director, said more machines would be needed - at a cost of at least £80,000 each.

"We think the government should be helping the airports and the airlines to meet some of the costs," he said.

The new machines are situated immediately behind check-in desks. Before getting their boarding cards passengers can be called into a secure area to open their baggage for inspection if required.

Matching passengers to baggage is already done manually at most airports, although Manchester will examine whether this can be automated using bar-coded labels now attached to luggage for automated sorting and handling. The problem is unaccompanied baggage - such as that which misses a flight during transit.

Pit consortium seeks investor

By James Burdon, Scottish Correspondent

THE miners' consortium which last year leased Monktonhall colliery near Edinburgh from British Coal is to seek a partner or outside investor to provide finance to overcome funding problems.

Monktonhall Mineworkers is owned by its 160 employees, who have invested £10,000 each in the company. It blamed the need for additional finance on a three-month delay in starting production. It wants to buy equipment to develop a second coalface.

The colliery, closed by British Coal in 1987, resumed production at the end of last year. It has a contract to supply 87,000 tonnes of domestic coal to British Coal and is fulfilling a trial order for 12,000 tonnes of power station coal for ScottishPower.

Mr Jackie Aitchison, Monktonhall chairman, said the company was continuing to operate thanks to the support of its bank, Bank of Scotland, and "the understanding of our suppliers".

It had decided to ask Price Waterhouse, its financial adviser, to gauge the level of

interest from potential partners and investors.

Monktonhall hopes that either a financial institution or a company involved in the coal industry will step in.

The consortium failed to attract investment from outside institutions or public funding agencies last year and is financed entirely by the £16m subscriptions of the miners, many of whom took out loans to buy their shares. Mr Aitchison said it was receiving no government or European Community subsidy.

Last December Mr Jim Parker, the mining engineer who led the consortium and put together its business plan, resigned as managing director after a disagreement with other members of the consortium.

Council leaders from mining areas yesterday urged the government to retain all 31 pits threatened with closure when it announces its expected rescue package next month.

Chief executives and councillors from 14 district councils in England and Wales also pressed British Coal to extend the special redundancy package beyond the deadline of March 31.

Banks agree deal on Battersea debt

By Richard Donkin

THE syndicate of banks which in effect controls the Battersea Power Station site is believed to have taken a discount on its debt of more than 90 per cent in a deal that will ultimately pass control to a Hong Kong property family.

The Hwang family, who are acquiring the site, refused to disclose the price they paid for the debt to a deal completed yesterday. But it is understood

that the syndicate, led by Bank of America, accepted less than £10m for signing over its claim on the 31-acre site - its collateral for a debt thought to total more than £100m, including interest and penalty fees.

The deal leaves the Hwangs stalling options for acquiring the site from its owner, Battersea Leisure, a company owned by Mr John Broome, whose plans to transform the site into a leisure complex ran into financial dif-

ficulties three years ago. The Hwangs could repossess the 31-acre site and the power station building from Battersea Leisure. An alternative might be to appoint a receiver for the company, who would put the site on the open market. As owners of the debt, the Hwangs would have the option to top any offer that was less than the total debt.

Mr Victor Hwang, chief executive of the Hong Kong Parkview Group, the Hong Kong

listed company in which his family has a 75 per cent controlling stake, said that he wanted to preserve the power station building, which is listed for its architectural and historical interest.

"Certainly there is no intention to tear it down," he said, adding that he would be looking at making a cohesive development on the surrounding site, possibly in a style to complement the building's Art Deco architecture.

Bank faces new BCCI criticism

By David Owen

THE BANK of England faced fresh criticism of its handling of the failed Bank of Credit and Commerce International yesterday when 43 MPs, including Labour frontbenchers, called for a review of Mr Eddie George's appointment as governor-designate.

The MPs called in a Commons early day motion for Mr George's appointment to be reviewed by the cross-party Treasury and Civil Service select committee, which this week published a report highly critical of the Bank's performance in the BCCI affair.

The motion urged the appointment of an outsider "untainted by the sordid and over-cozy ethos" at the Bank.

In a separate motion a cross-party group of 19 MPs stepped up the campaign for the government to reconsider compensation for BCCI depositors. The MPs - headed by Mr Keith Vaz, Labour MP for Leicester East and Sir Rhodes Boyson, a former Tory education minister - called on chancellor Norman Lamont to meet representatives of those who lost money in the bank's closure.

Hopes of Maxwell pensioners suffer setback

PENSIONERS reacted with dismay to the decision by the cross-party social security committee of MPs to postpone part of its investigation into the theft of Maxwell company pension funds.

The committee's move follows advice from the Serious Fraud Office, which warned MPs last month that taking evidence in public from witnesses who might also be called in criminal proceedings could prejudice those trials.

Yesterday's report calls on the Commons to consider the impact of its own sub judice rule on select committees' work, by referring the issue

to the procedure committee. Since it has played a significant part in keeping up the pressure on the government over the issue and given the Maxwell pensioners a high profile, the campaigners clearly regard the delay to the inquiry as a blow.

Mr Ken Trench, the chairman of the Maxwell Pensioners Action Group, said yesterday: "It now appears that the select committee is being gagged by the call for justice for two or three individuals, and thousands of pensioners are suffering. We feel that the SFO has

made a major mistake, and that justice for the Maxwell pensioners is being denied."

Committee members are keen, however, to dispel the idea that the postponement marks the end of their interest to the Maxwell affair.

Mr Frank Field, the Labour committee chairman, said the inquiry would resume after relevant criminal proceedings had been completed, even though this would not be for many months. Mr David Shaw, a Tory committee member, emphasised that the MPs still intended to "make sure the

pensioners' interests are being looked after."

The committee spent several meetings discussing whether it could hear evidence privately, but the report concluded the risks of doing so were too great.

It said: "This approach would leave the inquiry open to rumour and speculation, some of it possibly deliberately contrived in order to suggest that the committee was conducting itself in a way which could affect the legal proceedings."

While Mr Field said the

committee was relaxed about the decision, the report's call for a review of the operation of the sub judice rule reflects the frustration privately expressed by some committee members.

The MPs have contrasted their own position unfavourably with the greater freedom enjoyed by some of their counterparts overseas, such as the congressional committees in the United States.

This is the second time the rights and role of the Commons committees, set up in 1979, have been brought into

question by the Maxwell inquiry. In March last year the committee said the Commons should consider the private face of the House shown by Mr Kevin and Mr Ian Maxwell's refusal to answer the committee's questions.

Though some MPs feel uneasy at the committee's strong line against the Maxwell brothers, others have relished the way its work has expanded beyond the government's conduct to inquiring into the conduct of the professions involved in the Maxwell affair and trying to track down the missing money. They will not easily relinquish this

LEGAL NOTICES

IN THE HIGH COURT OF JUSTICE CHANCERY DIVISION
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No. 99/93 of 1993

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مكتبة

● Salvation Army's 'autocratic' management style criticised ● Detectives to interview officers ● Donations unaffected

Charity guidelines 'breached'

By Jimmy Burns, Andrew Jack and Roland Rudd

SENIOR Salvation Army employees believe the financial transactions which led to an alleged £6.2m fraud were in breach of Charity Commission guidelines drawn up after the Bank of Credit and Commerce International scandal.

This view, held by bankers who have worked closely with the Salvation Army, is shared by top charity lawyers.

It comes after a week in which it has become apparent that several of the individuals and organisations named in a writ by the army were already under investigation by police and regulatory authorities in the UK and the US.

Detectives of the Metropolitan Police and City of London police company fraud squad will next week present the Crown Prosecution Service with a preliminary report on the alleged fraud which would be the first step towards prosecutions.

The Serious Fraud Office is also believed to be taking an interest in the case.

Under guidelines drawn up with the advice of the Bank of England and the Building Societies Commission a charity should:

- Draw up a list of recognised financial institutions which have a first-class reputation... only institutions with the highest short-term ratings should be considered.
- Use professional money

managers for substantial cash resources.

● Recognise that, even if professional managers are appointed, the trustees bear the responsibility for decision-making and should carefully and objectively assess the advice they are being given.

The opinion was backed up yesterday by Mr Andrew Crawford, of City solicitors Cameron Markby Hewitt, which advises a number of charities on their investment powers.

Mr Crawford said last night: "This case demonstrates the importance of observing the Charity Commission guidelines on investing cash which includes the need to seek proper professional advice."

The Charity Commission said last night that it was monitoring the progress of the internal investigation being carried out by the Trustees of the Salvation Army, but would "keep under review" whether there was a need to intervene more directly.

Detectives plan to interview Salvation Army officers in connection with the alleged theft including Colonel Granville Burn, an officer in charge of fund raising, and Colonel Ivor Rich, the secretary in charge of business administration at the army's headquarters.

Col Burn was yesterday officially "on sick leave" and not available for comment.

Col Rich, who was working at his desk, said: "I would be the first one to clear this up if I could, but I'm gagged



Commissioner John Larson

from a legal standpoint."

Asked whether he was being made responsible for the financial transactions, Col Rich said: "I don't have the authority to act on my own. No officer does."

Within the UK territorial headquarters, Col Byrne was in charge of fundraising at the lower end of a chain of command which led upwards through Col Rich to the chief secretary, Commissioner Ian Cantmore, and the territorial commander, Commissioner John Larson.

At least two of those accused of fraud in the Army's writ - Mr Gamil Naguib and Mr Stuart Ford - have disappeared.

Mr Naguib is a director of two UK companies: Guardian Guarantee and Shellsouth. Both share a registered office in Shepherd Street, central London, which is now abandoned.

It has emerged that Mr Naguib, who is listed as a Canadian national, has been under investigation by the Fraud Squad since last year in relation to fraudulent financial transactions associated with the Islamic Pan American Bank, also named in the writ.

The Central Bank of Argentina said that the Islamic Pan American Bank, based in Buenos Aires, was never on its register. It has emerged that the US Internal Revenue Service took papers from the Dallas office associated with the bank last year.

Both Mr Naguib's companies describe their purpose as financial services, but neither company is on the Securities and Investments Board's central register, which lists all approved investment advisory companies.

Shellsouth was created in spring 1991, but it being pursued by Companies House because it has never filed accounts. Guardian Guarantee's latest accounts, for the year to December 31 1991, show a retained loss of £29,000.

The company's auditor was a north London company called Babs Sobanjo, which cannot now be traced. It no longer holds a practising certificate with the Chartered Association of Certified Accountants.

Mr Stuart Christopher Ford, named in the writ in association with Tilen Securities, traded some years ago in a different company involved in property development and

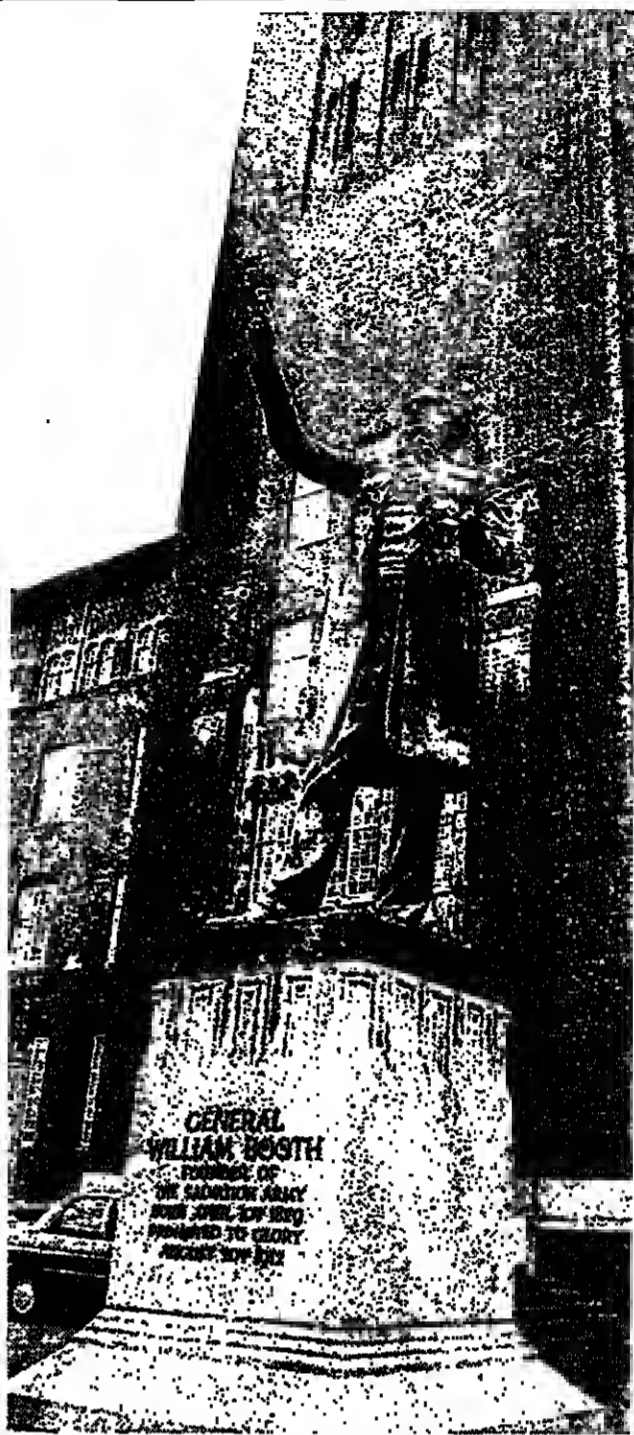
operating from the same address given for Tilen.

Tilen is located in the Birmingham suburb of Acocks Green and was shut down early last week according to the owners of neighbouring properties. Yesterday a padlocked screen covered the front of the premises. The owner of one shop said Tilen had been trading at that address for at least three years.

Mr Jashir S. Mudhar, who trades as JPR Accountants & Financial Services, was also named in the writ. He is not accused of fraud, but the army is seeking a declaration that any monies he holds on its behalf should be returned to it. He said yesterday that early last year he had handled a business transaction for Mr Ford but that he was unaware that it concerned the Salvation Army. He said that he had not had any further dealings with Mr Ford since then.

Mr Mudhar said: "I did not know whose money it was. We had no idea what it was. We just followed instructions. Everything we have done is proper. We simply handled something on instructions and I have no idea what transpired after that."

"Everything is above board and within the law. We are a professional practice and we would run away faster than Daley Thompson from anything that was not. We would not be associated with anything like that and we have nothing to fear."



Lydia van der Meer
Officers of the Salvation Army think transactions leading to the alleged £6.2m fraud breached Charity Commission guidelines

Salvationist journal have printed letters calling for greater transparency in financial and management matters. One worker in London yesterday admitted: "All our accounts are published. But human nature being what it is

people just don't bother to read them."

Salvation Army workers deny the affair has caused a decrease in donations or affected their annual collecting campaign, which is currently drawing to a close.

MPs urge tighter financial controls

By David Owen

PRESSURE ON the government to strengthen the present system of financial services regulation increased yesterday when a former Tory trade and industry secretary joined a cross-party group of MPs in tabling two critical early day motions.

Mr Paul Channon, the MP for Southend West, was one of six MPs who signed a motion highlighting the "inadequacies" of the present system of self-regulation for banks and building societies.

Expressing "grave concern" at the plight of elderly home-income-plan holders, the MPs urged the government to ensure mortgages were treated as investments for the purposes of the 1986 Financial Services Act.

Mr Channon, whose time as trade and industry secretary partly coincided with the passage of this act through the Commons, also backed a second motion urging the Securities and Investments Board to proceed "with urgency" to set up the proposed Personal Investment Authority.

The motion, which has so far been signed by eight MPs, endorsed the principle of self-regulation of financial services but acknowledged a "lack of confidence" in the existing system.

The motion says the PIA's establishment should create a single system, "embracing banks and building societies, as well as those bodies and individuals currently covered by Fimbra and Lauro, to resolve complaints and provide compensation for investors."

SIB has threatened that it might refuse to recognise the PIA as the new self-regulatory body for retail financial services if it does not raise standards of investor protection.

Earlier this month the PIA appointed Sir Brian Jenkins, a partner at accountants Coopers & Lybrand, to conduct an independent review of membership criteria.

Revelations fuel senior staff concerns

By Gillian Tett

THE revelations of alleged fraud this week has fuelled concern among senior Salvation Army employees. They believe that a recent restructuring, which separated the UK financial operations from international operations, allowed the financial scandal to take place, a senior source close to the charity said last night.

Although the leadership is not accused of any wrong-

doing, there is concern within the organisation about its management style.

"The news has come as a real shock to us workers," an army worker admitted yesterday as he stood stacking hymn sheets in a dusty church hall. "But then perhaps we don't really understand the money side of things as well as we should."

Founded in the early 19th century by Victorian philanthropist William Booth, the

charity first made its name fighting urban poverty.

A century later its task remains broadly similar. With an overall membership of 2m, the charity conducts work among the poor, dispossessed and homeless in 94 countries.

It claims to be one of the largest voluntary groups in the world, and in Britain is the second-largest provider of social services.

Nevertheless, the central tenets of the organisation

remain little changed - workers speak of their crusade as a "war", in which discipline is paramount.

The result is a management style which, as a charity accountant recently noted, is distinctly "autocratic".

Adherents claim these values create commitment. Critics say that it has made many in the organisation dangerously trusting over finances.

So far obedience has dampened open dissent, and officers

have been told not to talk to the press.

Captain Charles King, editor of the organisation's vividly named War Cry magazine, said: "The general attitude is that we should get on with the work we're doing. We don't exist to make a profit, but to help people."

But debate is growing, fuelled by the forthcoming election of the "general" - the highest rank within the army. Recent issues of the charity's

There is a limited amount of available space at the conference

FT
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London, 10 & 11 May 1993

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Saturday February 27 1993

Jawboning in the G7

WITH THE notable exception of the US, the leading industrialised countries face an increasingly bleak economic prospect this year. Japan is experiencing the biggest decline in output since the oil shock of the mid-1970s, while the banking system creaks under the weight of mountainous bad debts in property. Germany is sinking further into recession as the Bundesbank sticks dogmatically to its anti-inflationary stance. The French economy is hamstringing by absurdly high real rates of interest and actually shrank in the fourth quarter of last year. Meantime the elusive British recovery remains just that: elusive.

At times like this, when global growth is unequally distributed and trade imbalances are mounting, leaders of the Group of Seven industrialised countries are tempted to cook up plans to invigorate the world economy. Yesterday President Bill Clinton succumbed to the urge.

In an explicit return to the rhetoric of global policy coordination, he called for Japan and Germany to "act as engines of global prosperity". And the Treasury Secretary Mr Lloyd Bentsen, in London this weekend for the G7 meeting of finance ministers and central bank governors, has made no secret of his wish to push the G7 into a more active global role.

Yet past experience, from the locomotive experiment of the late 1970s, to the Plaza and Louvre accords of the 1980s, suggests that co-operative growthmanship has a nasty way of ending in disaster. Equally to the point, much of the G7 is already pushing in the right direction under powerful domestic impetus and those countries, like Germany, where policy change is overdue, have a compelling agenda of their own.

The Bundesbank is unlikely to succumb to stern calls for looser monetary policy, at least not at a time when its worries about inflation are palpably justified. It is fully entitled, on its past record, to take its own counsel on the appropriate moment to ease.

Economic costs

Nor are the French likely to be any more accommodating. A country that has been prepared to incur huge economic costs within the European Exchange Rate Mechanism for wider foreign policy goals is unlikely to throw in the towel now for the sake of G7 co-operation. France's reading of its own interests may be difficult for others to fathom, but its dismal unemployment figures bear witness to the depth of the commitment to the *franc fort* policy.

Japan looks a more tempting target for a new US administration. As the world's largest creditor nation, with plenty of room for

fiscal manoeuvre, it could readily move in a more expansionist direction; and the US has traditionally exerted greater influence on its domestic affairs. Yet the dire state of the Japanese economy owes much to earlier US demands for looser monetary policy in the second half of the 1980s. Nor are calls for a further appreciation of the yen helpful, since they imply a misreading of the Japanese trade surplus.

Japanese exports have shown scarcely any growth over the past two years. The yen, meantime, is already at record levels both in trade weighted and dollar terms. Such has been the pressure on profits in Japanese industry that job cuts are beginning to take place in an economy where the big corporations traditionally shelter the workforce from the depredations of recession. This week's news of Nissan's decision to close a car plant was a further psychological shock. The reason Japan's trade surplus has soared is simply that imports have collapsed as the economy sinks into the mire.

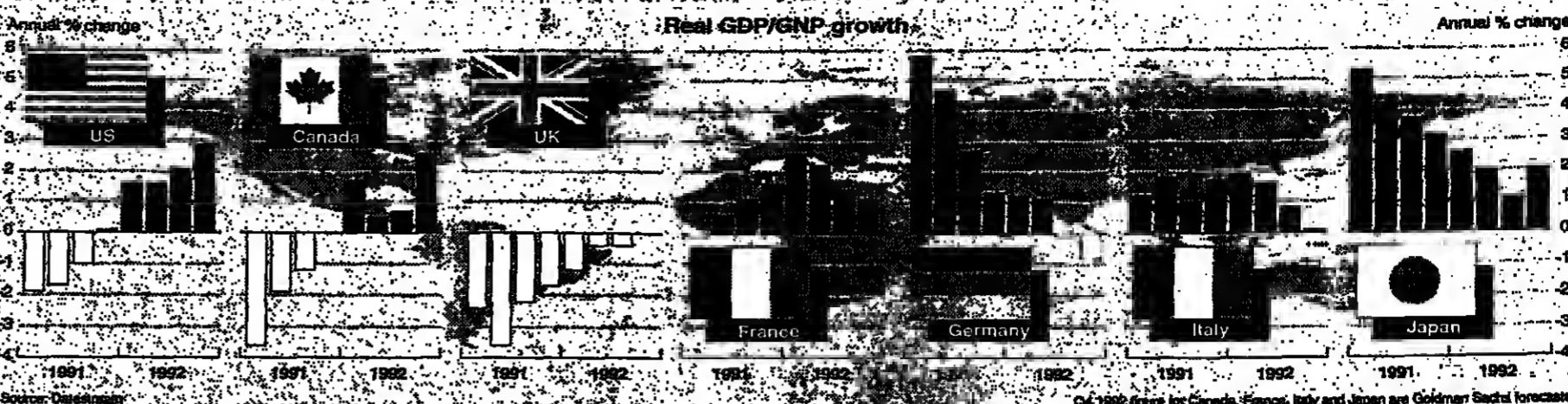
Trade imbalance

The longer term causes of the US-Japan trade imbalance are structural. They reflect the excessive Japanese propensity to save and the equal and opposite lack of saving in the US. By showing willingness to address an excessive US budget deficit in his State of the Union message, President Clinton is at least moving in a constructive direction. But this new-found fiscal virtue is no reason to pressurise the Japanese when the country is already pulling out the stops to prevent a financial collapse. A further, expansionary fiscal package is widely regarded as inevitable at a time when the Japanese social contract is more seriously threatened than it has been for decades.

In short, domestic political pressure and market forces are already pushing Japan in the direction that President Clinton wants. The same is true in all the other economies that have been particularly heavily burdened by debt, not least Britain, where high profile pay-offs this week by ICI and British Gas tend to distract attention from the underlying reality - namely, that the government cannot escape from a severe fiscal bind without restoring rapid economic growth.

The moral for the G7 is that there is no harm in jawboning the Germans over their fiscal irresponsibility, nor in seeking to fathom the self-denying economic habits of the French. But Mr Clinton's exhortations on trade, and on assistance for Russia, offer a more promising agenda than any global dash for growth.

US economy lifts off as Europe and Japan slow down



The US economy is emerging strongly from recession. The torch of leadership has passed to an able and energetic young Democrat. For the first time in over a decade, the same political party now controls both houses of Congress as well as the White House. The Clinton administration is thus better placed than its recent predecessors to provide global economic and foreign policy leadership.

None of the other leading industrial countries shares its advantages. Japan has old and unimpressive political leaders and confronts potentially the most serious recession in decades. The strains of unification have undermined Germany's role as Europe's monetary anchor, sent recessionary ripples across the entire continent and thrown in jeopardy the ambitious timetable for European economic and monetary union. The UK seems unable to break out of a protracted downturn and is going through one of its periodic bouts of self-denial.

President Bill Clinton seems fully aware of his global responsibilities. In an eloquent speech in Washington yesterday he adopted a lofty internationalist tone, far removed from his recent carping about Airbus subsidies. "Open and competitive commerce will enrich us as a nation," he declared. The US had to "compete to retreat".

Mr Clinton also sought to place his economic package of last week in the context of a "global growth strategy". The message is that the US has put its house in order by taking steps to reduce the budget deficit and raise long-term investment. But while the US is prepared to lead it cannot alone guarantee global prosperity; the time has come for Germany and Japan to play their part as engines of global growth.

Mr Clinton left the details for Mr Lloyd Bentsen, the US Treasury Secretary, who is in London for today's meeting of the Group of Seven industrialised countries. It is no secret that the US wants Japan to adopt a more expansionary fiscal policy and Europe to do something - anything - to promote faster growth. In US eyes, Europe is out of line on monetary policy: short-term interest rates remain far higher than in either the US or Japan. Mr Bentsen is thus likely gently to press the Bundesbank to consider an early easing of policy.

The president's attention to international economic issues will be welcomed abroad. But the best grounds for economic optimism lie not in what Mr Clinton said but in the vigorous US economic recovery the Democrats have inherited from the Bush administration. After

The global economy cannot rely on the US for leadership, says Michael Prowse

The dangers of a quick fix

After nearly two years of sluggish expansion, the US economy is finally taking off. The Commerce Department yesterday reported stunning GDP figures for the fourth quarter: growth at an annual rate of 4.8 per cent, the best since 1987.

Most forecasters now believe that steady annual growth of about 3 per cent is now all but assured. The US is such a self-contained economy (the share of exports in GDP is still only about 12 per cent) that even a deepening downturn in other countries is unlikely to jeopardise its recovery. On the contrary, as incomes and consumption rise in the US, other countries will benefit from increased demand for their products. The US should thus help pull other countries out of recession, although the pull will be weaker than in the early 1980s, when deficit spending sent US demand through the roof.

By curbing future deficits, Mr Clinton may slightly reduce the US growth rate in coming years. But the effect will be small partly because lower long-term interest rates will offset fiscal contraction and partly because the deficit-cutting is less severe than widely appreciated.

Buried at the back of Mr Clinton's A Vision of Change for America is a revealing table showing projections for the structural budget deficit (the deficit allowing for the effects of the business cycle). This shows that planned policy changes will reduce the structural deficit by about \$200bn over the next two years and then hold it steady at about \$200bn (roughly 3 per cent of GDP) until 1997.

The conventional wisdom that an immediate stimulus will be followed by tough measures to curb the deficit is thus quite misleading. In reality there is no stimulus worth mentioning and only the most modest stab at reducing the structural deficit over the medium-term. Congress however may push for substantial changes to the plan.

Beyond allowing a spontaneous

private-sector-led recovery to gather momentum, what can the US do to spur global growth? The two areas where US actions potentially matter most, but where signals to date have at best been confused, are G7 policy co-ordination and trade policy.

Since his nomination as US Treasury Secretary last year, Mr Bentsen has repeatedly stressed his wish to "revitalise" the G7 co-ordination process. He says he will rely mainly on private negotiation and promises to eschew the "public bullying" that so often proved counterproductive for the Reagan and Bush administrations.

Unfortunately, he has already blotted his copybook by declaring publicly last week that he favoured a stronger yen. Predictably, frenzied

The US wants Japan to adopt a more expansionary fiscal policy and Europe to do something - anything - to promote growth

trading on foreign exchange markets caused a sharp appreciation of the yen, which threatens to intensify already powerful recessionary forces in the Japanese economy. Tokyo was understandably miffed.

The US probably does not know what it wants from policy co-ordination. In a competitive global economy characterised by highly mobile capital and instantaneous communications, the G7's significance can easily be exaggerated. Before leaning too hard on trading partners, Mr Bentsen might recall that most of the measures advocated by the US in the recent past subsequently proved misjudged. For example it pushed Japan into overstimulating its domestic economy in the late 1980s, a mistake that led directly to

a speculative bubble in share and real estate markets and, ultimately, today's financial turmoil.

In due course the Bundesbank is likely to lower interest rates and Japan's Ministry of Finance to sanction more expansionary fiscal measures. If the G7 chooses to dress this up as a great triumph of co-ordination - a quick fix for Mr Clinton's "bold" fiscal retrenchment - that is its prerogative. In reality, however, these steps are like to be taken when and only when they are perceived to be in the self-interest of the countries concerned.

Mr Clinton's speech yesterday, which emphasised the importance of US workers and industries adjusting to the realities of global competition rather than seeking to shelter behind trade barriers, will offset some of the damage inflicted by loose protectionist rhetoric in recent weeks. European and Japanese officials, however, would be right to remain suspicious. The fierceness of Mr Clinton's complaints about Airbus subsidies is telling the world something.

Mr Clinton is not an overt protectionist but his stance on trade differs considerably from that of George Bush. Mr Bush's formative years were the 1940s and 1950s when US industrial supremacy was unchallenged; Mr Clinton's were the 1970s and 1980s, the decades when the US seemed unable to handle foreign competition in such sensitive sectors as consumer electronics and cars.

While Mr Bush took the benefits of a liberal trading system for granted, Mr Clinton and many of his senior advisers believe the US has lost ground partly because other countries bent the rules - by refusing to open markets as fully as the US and by pursuing active industrial policies involving generous government subsidies for strategic industries.

The Clinton doctrine is that free trade is beneficial but only if the same standards apply universally. This week he unveiled a mildly

interventionist "technology policy" to meet the perceived threat from European and Japanese industrial policies; he will continue to press hard for reciprocal trade concessions abroad whenever he feels other countries are not meeting US standards. This is a recipe for continued trade tension.

In the past, the global economy has performed best when an "anchor" country has served both as a guarantor of monetary stability and a champion of the liberal values on which a market system depends. Britain performed this role with distinction during the 19th century; the US performed well after the second world war as the hub of the Bretton Woods exchange rate system.

But towards the end of the 1980s US leadership faltered, mainly because it failed to keep its own inflation rate under control but also because it lost sight of its wider global responsibilities. For the past two decades, for example, the US has persevered the dollar less as a global store of value than as an instrument to be manipulated for the short-term benefit of American exporters.

Mr Bentsen's immediate reaction to the widening bilateral trade deficit with Japan (caused mainly by Japan's domestic slump) is wholly characteristic: seek a quick fix by talking the dollar down against the yen. It rarely seems to occur to US policymakers that, in the long run, the countries with the strongest currencies also enjoy the strongest trade accounts.

Indeed, despite protestations about improving long-run productivity, a kind of short-termism permeates much of the Clinton administration's economic strategy. Worried about a lack of investment? For Mr Bentsen the answer is obvious: dish out a temporary investment tax credit. Just seven short years after the path-breaking 1986 Tax Reform Act, which eliminated a host of fiscal distortions, the US Treasury is again manipulating the tax code in search of temporary economic gain.

Mr Clinton is right to argue for a global growth strategy. But despite the seductive rhetoric there is a danger that the US in practice will continue to press for quick fixes - such as fiscal boosts or currency realignments - and lose sight of the more important long-term determinants of prosperity, such as a genuinely liberal trade regime and non-inflationary monetary policies. The question is whether it will be a good anchor for the world economy in the short or the long term.

MAN IN THE NEWS: Sir Denys Henderson

Corporate history in the unmaking

Sir Denys Henderson, last chairman of the old ICI, explains his business strategy to Tony Jackson



days of doubt. "You're a pretty marvellous guy if you think you're omniscient and you've got it 100 per cent right. You recycle it over and over again. You read accounts in all sorts of places that say you're mad, you're crazy. And we gave you guys in the press plenty to write about: they should, they shouldn't, they will, they won't, it's the wrong time if they do."

changed since the plan was first mooted last July. "The chemical world has gone to hell in a handcart. So you're bound to increasingly ask yourself whether you should put it off. There was all this personalised stuff saying 'he's got himself in a box, if he doesn't do it he's for the chop'. That might have been true - I don't know. It's never how it appeared to me with my colleagues. They have been convinced,

like me, of the business logic."

The business case for splitting the company remains slightly elusive to the outsider, despite the efforts ICI has put into explaining itself. Sir Denys's own account goes back as far as 1984, when ICI's profits burst through the £1bn mark.

"Already, we were asking what kind of strategies we needed for the future. We concluded that the UK economy was unlikely to thrive and

that the UK industrial base was declining. We came to two pretty simple conclusions: that we had to increase our penetration of the big overseas markets, and we had to move further out of commodity chemicals into specialties."

He rattles off figures to demonstrate the working of the strategy. In the early 1980s, the UK accounted for 40 per cent of ICI's sales. By 1990 it was 20 per cent. In the early 1980s bulk chemicals were 60 per cent of sales, specialties 40 per cent. By 1990 it was the other way round.

But in October 1990, Sir Denys had a "dash of light". In Phoenix, Arizona, he took a phone call from his finance director, giving him ICI's third-quarter results.

"They were OK, but they were £100m less than we had expected. And the shortfall wasn't in basic chemicals, it was all in specialty chemicals and materials. So I instantly thought, hello, some bits of this strategy don't seem to be working."

So through 1990, he says, they went through the business again, tightening up the capital, cutting costs, reducing staff. "In September that year, I came back from holiday feeling distinctly queasy. Despite all the things we were doing, it might not be enough."

So he set up task forces to examine ICI's strategy and structure. "At the end of the year they came back and said the structure wasn't right, and that though the strategy was broadly in the right direction, we were under-resourcing the businesses which had the real potential. We were trying to run too many things at once." Forty years on, ICI was once again asking itself if it was too big to manage.

The committee looking at the structure had been given a broad brief. "I told them to look anywhere they liked, should we consider some form of demerger, some association with other companies, anything. They looked at an enormous number of different models, including breaking up the company."

In May, Sir Denys was faced with what he terms "a slight decision". With what now looks like supremely ironic timing, Hanson,

the break-up specialist, took a stake in the company. "Though that didn't distract the businesses, it took a fair amount of time at headquarters, while we worked out who was trying to do what to whom and what we should do."

But by October, it looked as if the threat was not going to materialise. "So I got our general manager to dust off the plans on restructuring, because it seemed to me that the recession was getting still deeper and wider."

Then, at the end of 1991, he turned to Warburg, ICI's financial advisers. "I said to David Scholey [Warburg chairman]: 'Lead me somebody who's lively and intelligent, who doesn't think like us, who can look at our plans and apply a bit of lateral thinking.'"

Warburg sent a young corporate financier, Mr John Mayo. "I said to him: 'You're going to report to me personally. I don't want you going out and about talking to people.'

'You're a pretty marvellous guy if you think you're omniscient and you've got it 100 per cent right'

because you'll get confused by everyone grinding their own axes. So he came back to see me three months later, and sat in here one Friday afternoon with a book this thick and said: 'Demerger is something you should consider very seriously.'"

"As I went home that weekend, sitting in the car, I thought 'oh God, we've just been through all the Hanson stuff. Do I really want to start all this hassle again three years away from retirement?'"

The answer was plainly yes. In seeking a reason, Sir Denys turns again to history. "This country lost an empire and had a hell of a job finding a role. Imperial Chemical Industries first had to move away from being Empire-driven. Now it has to go the way the world is going in the next century."

'You have to do what is right for the company, no matter how much you're running against the tradition'

had the marvellous good fortune to be there to build the business up. That must have been an enviable time to be involved in the chemical industry, when it was right at the beginning of its take-off."

But though Sir Denys is a bit emotional, he says, they are also realists. "It's worth remembering why ICI came about in the first place. All these little companies in Britain had to get together because of the threat to the British chemical industry from IG Farben, who dominated Europe, and du Pont who dominated America."

"Right from the start, it was a tough struggle. We were Empire-driven, and Canada, Australia, South Africa and India are not the world's greatest chemical markets. Nor is the UK, come to that. That's why we had to spend the 1980s building our position in Europe and

Then again, he had some fairly formidable colleagues to turn to. "I talked it over a lot with my non-executives on a one-to-one basis. Being able to talk it over with Paul Volcker [ex-chairman of the US Federal Reserve] or Jeremy Morse [chairman of Lloyds Bank] or Anthony Pilkington [chairman of Pilkington] is pretty helpful. These are objective people."

All the same, he concedes, he had

It is ironic that France, which fields more troops than any other country to help the United Nations try to prevent a new world order breaking out, should often be so unruly at home.

This week has seen fishermen smashing up markets in their native Brittany and in Paris in protest at cheap imports. It was the first time that the men of the sea decided to use the same licence for violent demonstration that French society has long given its men of the land. The farmers, too, disrupted trains in their continuing campaign against farm reform negotiated in the European Community and the General Agreement on Tariffs and Trade. Some dockers, airline and electronics workers also stopped work in pay and lay-off protests.

Disorder of a different kind broke out in French politics. Mr Michel Rocard, former prime minister, used his position as the Socialist's intended successor to President François Mitterrand in two years to call for "a political big bang" to create a new universe on the French left. Conceding the implosion of the ruling Socialist party in the run-up to next month's parliamentary elections, Mr Rocard called on Socialists to abandon their party and to join with pragmatic Greens, moderate Communists and reformist Communists in a new movement.

The shock waves of this initiative are still radiating through French politics. A note of uncertainty has now been injected into an election campaign which had seemed sure to result in an overwhelming victory for the centre-right.

Clearly, Mr Rocard sees his "big bang" as the only thing that can propel him into the Elysée in 1995, but there is just an outside chance that it could give France the sort of broad-based, durable social democratic party that most other European countries have.

These ructions stem, in part, from the fact that France has modernised its economy - or the industrial part of it - faster than its society or its politics. But they also reflect an unhappiness about the way that industrial modernisation has taken place.

In statistical terms, its industrial success is clear. France recorded a FF30bn (23.8bn) trade surplus last year, a performance made all the more impressive by the country's strong exchange rate. This surplus is now fading away under the impact of competitive devaluations, plus falling demand, in many neighbouring countries. But France will keep its position as the world's fourth largest exporter. Its unit wage costs have risen 12 per cent less than rival Germany's over the past four years.

All this has been achieved within the liberal economic rules that the EC and world economic competition have imposed on France. Brussels's competition directorate has gradually reined in French state aid to industry, which has been equally constrained by the Maastricht treaty's budgetary disciplines. Industrial imports have a higher penetration (31 per cent) in France

Ructions in the ancien régime

Disorder on the streets has spread to French politics, injecting uncertainty into the election campaign, writes David Buchan



Two faces of French disorder: Rocard called for 'a political big bang', as fishermen protested at cheap imports

than in trade-deficit Britain (29.2 per cent), according to the Commissariat du Plan, the French planning agency. They include ever-larger quantities of Japanese cars, to the continuing fulfilment of Mr Jacques Calvet, head of Peugeot.

But just because the French have played the game well does not mean that most of them like the rules any better. One of the few popular things the Socialist government has done in its waning weeks of power has been to make it harder for employers to throw more people on the heap of nearly 3m jobless. The Patro-

nat employers federation has become the butt of criticism from the right as well as the left.

An even better scapegoat has been foreign companies like Hoover, Philips, Grundig and Kimberly-Clark, which have been pulling out of France. Behind the charge of "social dumping" - widely levelled at foreign companies, but only with any plausibility at Hoover - is the feeling that France must resist an alien, uncaring model of society being thrust on it.

Nowhere, of course, is such resistance greater than in agri-

culture. France remains flatly opposed to last year's ECUS deal on cutting back subsidised farm exports. Paris says it wants the whole Gatt negotiations restarted, an idea to which President Clinton's combative behaviour on Airbus and other trade issues gives a faint plausibility.

UK Prime Minister John Major tried to play peacemaker at the White House this week. But there is a tendency here these days also to see Britain as part of a general effort to do down France and its achievements. Even the cosmopolitan Mr Raymond Barre, the cen-

trist politician, has warned publicly of an Anglo-Saxon conspiracy to sell the franc short. A senior government official dismisses as nonsense such a charge which arises, he believes, out of the linguistic fact that "the markets tend to speak to us in English."

France's current xenophobic bout seems to be socio-economic rather than racist. The national human rights commission this week reported a further decline in racist violence last year, a welcome contrast to - and perhaps a lesson drawn from - what has been happening in Germany.

Mr Jean-Marie Le Pen, who last year clamoured against Maastricht and was inviting his supporters to slap in the face every journalist they met, has had a quiet campaign. His National Front has been squeezed by the strong showing of the RPR and UDF opposition parties, who themselves have called for a "clear and courageous immigration policy". They want to give foreigners less time to argue against expulsion orders, and less scope for those wishing to gain entry into France to make marriages of convenience and for polygamists to collect multiple family allowances.

But the phenomenon that spawned the National Front on the right and the Greens on the left still exists. This is the mixed contempt/disinterest in which many French hold mainstream politicians, who in some opinion polls have rated only just above prostitutes.

Corruption may not be on the Italian level. But one insider trading scandal, concerning Pechiney's 1988 purchase of Triangle, a US packaging company, still rumbles on to haunt the Socialists, who in modernising the Paris market-place opened it and themselves to the temptations inherent in big financial transactions.

Senior Socialists, as well as opposition politicians, have been indicted for putting corporate kickbacks into the party coffers. The presence in the government of Mr Bernard Tapie, seen as an ass-juggler rather than a conventional

businessman, has not helped. In the country that gave the world the categories of "left" and "right" in politics, many people, according to opinion polls, feel this dividing line to be of decreasing relevance.

This week Mr Rocard claimed the demarcation was still relevant - but "in the wrong place". His strategy is to move socialists with a small "s" away from outmoded concepts like class warfare towards the political centre, while at the same time wooing back the founders of Generation Ecologique, the more pragmatic environmentalists who had earlier bolted from the Socialist party. Mr Brice Lalonde, GE's leader, said he might do business with Mr Rocard, though not necessarily the Socialist party - accepting "the bang, but not the gang", as he put it.

Even if Mr Rocard's initiative never takes the concrete form of a new party or a new federation of parties, it is part of the necessary fluidity of French politics. All presidential aspirants need to reach outside their own party to assemble temporary coalitions that can carry them to the Elysée, the seat of real power.

Mr Mitterrand has set in train a constitutional review to modernise the Fifth Republic. But his first step was timid. An "experts" committee this month recommended tinkering with the balance between institutions. Until France gives less power to its secretive, quasi-monarchical presidency and more to its feeble, but open, National Assembly, its citizenry will do the old-fashioned thing of taking their grievances on to the streets.

High-quality broadcasts promise to transform the way we consume music and television, write Michael Skapinker and Nikki Tait

Digital killed the audio star

Mr Richard Branson showed a record magazine an electronic box which could receive music from satellites and transfer it to people's stereo systems.

The box was an April Fool's box. To Mr Branson's delight, the magazine fell for it, running the story on its front page.

Ten years later, no one is laughing. Households in the US can already pay to have compact disc-quality music broadcast to their homes. Using newly available digital recording machines, they can make copies as clear as anything they can buy from their local record shop.

Some in the music industry believe that, as such services become more widely available, the compact disc, the cassette - even the record shop itself - could disappear.

In their place would be a home juke box, from which people could select CD-quality albums or single tracks, and record them whenever they wished. Some go further, with music available on request and at the touch of a button, people will not even bother to record it.

Similarly, instead of going to the video store to rent a film or waiting for a movie to appear on television, cable subscribers could order whatever film they wanted and it would immediately appear on their screens.

Mr Alain Lévy, chief executive of PolyGram, one of the world's biggest music groups, doubts that music lovers will stop buying compact discs and cassettes in great numbers. "The technology will exist, but my gut feeling is that changes in people's behaviour take a lot longer."

Similarly, Blockbuster, the Florida-based video rental company which now owns the Virgin chain in the UK, argues that the delivery of movies directly to the home will not ruin its business. "The threat to movie video is overstated. We think it will be viable through to the end of the decade," claims Mr Ron Castell, senior vice-president of programming and communications.

But Mr Nic Garnett, director general of the International Federation of the Phonographic Industry, which represents music companies worldwide, believes it is safer to proceed on the assumption that delivery of entertainment directly

to the home will catch on.

He has already begun campaigning for legislation to ensure that record companies' revenues are protected and that people who receive their music at home are made to pay for it. He wants music companies to be given the right to authorise or refuse the broadcast of their recordings to people's homes. "In most cases, permission will be granted - but on terms," he says.

In the US, a company called Digital Music Express (DMX) already provides 30 channels of CD-quality music 24 hours a day to 10m cable subscribers. For between \$10 and \$12 a month, which includes a tuner and a remote control device, subscribers can listen to anything from chamber music to a reggae channel.

The music is not interrupted by commercials or disc jockeys. While the selected channel is playing, the remote control device displays the name of the track, the artist, the album title, the composer, the record label and, where applicable, the position in the charts.

Next month, DMX says it will start broadcasting to cable subscrib-



ers in the UK, the Netherlands, Belgium and Denmark. Programmes will be transmitted by satellite from Atlanta to European cable operators.

If subscribers want a high-quality recording of the music they are listening to, they can use one of two new products, the Digital Compact

Cassette or the Mini Disc. The DCC looks similar to a cassette tape, but produces a sound as good as a compact disc. The Mini Disc is a smaller version of the CD, but it can record as well as play music. The recordable, blank CD is not yet commercially available, but it is technically feasible and many expect it to be on

sale eventually. The next development is likely to be digital audio broadcasting, which will allow radio stations to broadcast high-quality, interference-free sound from terrestrial transmitters to purchasers of special receivers. Mr Henry Price, head of engineering information at the BBC, says he

expects digital audio broadcasting to begin in Germany in the second half of 1995, and in the UK shortly after that. In theory, listeners could then make digital recordings of rock songs or concerts, but Mr Price wonders how many will.

The UK already has the digital Nicam television sound system, enabling people to record CD-quality music. Evedo analogue radio transmissions can provide an acceptable level of sound for decent recording. But there is not much evidence of widespread recording from radio or television.

Evedo with DMX, there is the disadvantage that you cannot record what you want when you want it. The 30 channels have a daily programme of music and, while subscribers can select one, they cannot choose an album or track.

Similarly, while television watchers can make a video recording of a film on a networked or subscription channel, if they want a particular title they have to wait until it appears on the schedule - or rent it from a video shop.

If current methods of buying conventional cable systems, Mr Edward Bleier, a senior Time Warner executive, can offer straightforward advice on how to make the business a success.

"Concentrate on the bits. Like theatres, video stores, airline terminal book racks, almost all the business is in the bits," said Mr Bleier. The new pay-per-view for "hit" movies, which could cover the longer term, undermine the video store, will help to bankroll a wide range of low-cost existing entertainment channels from the US, and programmes for ethnic minorities or special interest groups.

At the moment it costs about \$4m to lease a satellite transponder which receives a single channel from earth and beams it back again. Divide that channel distribution cost by 10 and suddenly a lot of things become possible.

Already, there is no shortage of people interested in using digital compression to provide happy surfing in a new Communicopia.

Raymond Snoddy

Surfing across the screen

Broadcasters around the world are starting to take notice when two rather technical words are mentioned - "digital compression". They refer to techniques dating from the 1970s by which the 400,000 or so individual elements in a single frame of a television picture are turned into digital form and broadcast to the viewer. What will soon be on offer is nothing less than an entertainment revolution.

British viewers who have scarcely had time to get used to 20 or 30 channels now available on cable and satellite, in place of the conventional handful of national broadcasting choices, may soon have to start contemplating the possibility of several hundred television channels coming into their homes from all over the world.

Experts at this week's Financial Times Cable and Satellite conference seemed in agreement that 180-channel systems using digital technology are now no more than two years away. The changes about to hit the

small screen are so significant that new words are being coined to cope with the concepts: for example, "grazing", the term used to cover the behaviour of viewers dipping into and sampling a wide range of channels, is giving way to "surfing" a word describing the likely behaviour of viewers skimming gracefully over the surface of an endless choice. To Goldman Sachs, the US merchant bank, the merging of sound, pictures and computers in digital form is creating a new "Communicopia".

No one can forecast precisely how many channels will prove to be commercially viable. But Mr Celso Azevedo, technical director of Societe Europeenne des Satellites, the Luxembourg-based company which runs the Astra satellite system, promised at the conference that the option of 180 channels would be available by 1995.

Another satellite with a further 180 channels was being considered by Astra, he said.

Using digital compression, 10 channels could be squeezed into the space now occupied by one, said Mr Azevedo. Microchip technology makes this possible. With pictures arriving on the screen at the rate of 25 a second, each frame is not very different from its predecessor. An individual frame is held in the microchip memory and only the differences between one frame and the next are identified and transmitted. This means a huge saving in channel capacity.

However, there is a trade-off between the number of channels and the quality of the picture: if viewers want higher-quality pictures, or wide-screen television, it will mean fewer channels.

Digital compression is not just being considered in Europe. In

Asia, the Hong Kong-based Star Television satellite company currently broadcasts five channels of television, including BBC World Service Television, to 38 Asian countries. It is considering moving to 180 channels by 1995. In the US, Hughes Communications plans to launch a 150-channel system next year using digital compression.

But why should anyone want 180 or even 360 channels? The driving force is coming from movies on demand. Pay \$5 and see a hit movie now - or almost now. Compression will dramatically cut the cost of satellite transmission and make it possible to devote six channels to showing the same film. Because of staggered starts, viewers will rarely be more than 20 minutes away from watching the film of their choice.

With more than 15 years' experience of pay-per-view movies on con-

ventional cable systems, Mr Edward Bleier, a senior Time Warner executive, can offer straightforward advice on how to make the business a success.

"Concentrate on the bits. Like theatres, video stores, airline terminal book racks, almost all the business is in the bits," said Mr Bleier. The new pay-per-view for "hit" movies, which could cover the longer term, undermine the video store, will help to bankroll a wide range of low-cost existing entertainment channels from the US, and programmes for ethnic minorities or special interest groups.

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Already, there is no shortage of people interested in using digital compression to provide happy surfing in a new Communicopia.

Raymond Snoddy

Extension of council tax bandings would be more in touch with reality

From Mr Kenneth Huot.

Sir, I have recently written to my MP concerning the adoption of the council tax, which I see as a reversion to the old rating system, but under a redesigned label. In my view, this tax is flawed at the government level, reflecting a government that thought out of touch with reality.

Although my reaction is stimulated by complaint, it is accompanied by a proposal for the extension of the valuation banding in a form which I believe to be more rational and more "sensitive" than is the present format.

Why stop bands at "more than £330,000" when, around the country, in every county, on the perimeter of every large town there are pockets of properties in value, even now, up to about £500,000?

The existing scaling reveals a percentage differential between Bands A-F inclusive of about 30 to 35 per cent, but after £100,000 the incremental percentage jumps to 100 per

cent. I suggest that valuation bands are extended quite logically and realistically to establish a scale cut-off at "more than £550,000". Thus: Band G - more than £180,000 and up to £220,000; Band H - more than £220,000 and up to £300,000; Band I - more than £300,000 and up to £400,000; Band J - more than £400,000 and up to £550,000; Band K - more than £550,000.

This probably brings with it potential for improvement in council revenues.

When such a scaling is introduced, I for one would feel rather better disposed towards the new tax than I do at present, when my small bungalow finds itself in Band G.

Obviously, I have applied for an appeal form, in line I must assume with thousands of others.

Kenneth Huot, The Spinnery, Ivy Lane, Woking, Surrey, GU22 7BY

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL. Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Coal industry not dealt a blow by report

From Mr Martin O'Neill MP.

Sir, Far from dealing a blow to Britain's coal industry ("Regulator deals blow to coal lobby", February 23), Offer's preliminary report in December was roundly criticised by both industry and independent commentators. Its "further statement" shows that it has failed to address many of these criticisms.

Offer has repeated its earlier

mistake of comparing contract prices instead of generating costs. Professor Littlechild has stated that he will examine in the future the generators' huge margins on coal-fired electricity. However, any proper assessment of the "dash for gas" must take account of these too.

There is considerable evidence that the cost of coal burn is less than that of gas-

fired generation. I am confident that, once the generators pass on reduced coal prices in their contracts to the regional electricity companies, coal will prove to be cheaper than gas. However, until the director-general has conducted his examination of generators' margins, his report will effectively be meaningless.

Finally, the report fails to take proper account of the

higher gas supply contracts for later CCGT projects, and does not examine the damaging implications of the dash for gas for future gas reserves and gas prices. In conclusion, Offer's misleading "economic purchasing review" is anything but a "green light" for the dash for gas.

Martin O'Neill, House of Commons, London SW1A 0AA

Dearth of information on needs of manufacturing base

From Mr Roger Lyons.

Sir, May I congratulate you on starting your series on the decline of Britain's manufacturing base. It is research which is desperately needed if we are to put that decline into reverse.

Unfortunately, the government does not appear to be concerned about the matter. May I refer you to the written

question put down by Nigel Spearing MP (Newham South). The question was: "To ask the president of the board of trade if he will list the manufactured products which ceased to be manufactured in the United Kingdom since 1980."

The answer from Tim Sainsbury, minister for industry on Wednesday February 17 was: "There are a number of

sources of information on manufacturing products but none is sufficiently comprehensive to allow for an accurate answer."

Does that not say it all about this government and the president of the board of trade? They do not know how or even where to start on the vital process of rebuilding our manufacturing base.

It would be laughable if it was not so tragic. Thousands of jobs are being lost in the industries which we so urgently need to rebuild Britain's wealth. Roger Lyons, general secretary, MSF, 64-66 Wandsworth Common, Northside, London SW18 2SH

VAT on food best available option for government

From Mr Hubert Scholes.

Sir, Mr Geoff Rayner and Mr Tim Lang describe VAT on food as a banana skin the government must avoid (Letters, February 20).

On the contrary, if and when the chancellor needs to raise more revenue, this (with similar action on other zero-rated goods) is the best option available.

Of course, if we look at VAT in isolation, it would be a "tax on the poor" but the poor can be relieved of the burden by raising income tax thresholds and welfare benefits, leaving substantial net revenue to be raised from those who can afford to pay.

Ending zero-rating would remove economic distortions, eliminate tiresome administrative anomalies (reducing rather than increasing bureaucracy) and bring the UK more closely into line with its European partners, where Britain's regime has been a long-standing source of difficulty.

It would also help to shift the balance from taxing income to taxing expenditure, which many regard as both fairer and less of a discouragement to enterprise.

Hubert Scholes, 3A Lancaster Avenue, Farnham, Surrey GU9 3JY

Expensive reality of road tolls

From Mr R J Connell.

Sir, Your editorial, "Paying for roads" (February 23), prompts me to inform you of the real cost of road privatisation. My company's vehicles use the Severn River toll crossing every day. It now costs £9.30 for each heavy goods vehicle to cross into Wales. In

the nine months since privatisation these tolls have been raised twice and are now 55 per cent higher than at this time last year.

R J Connell, Robert Connell Associates, Aintree, Mountain Road, Chester, Cheshire NP6 6AA

COMPANY NEWS: UK

Total dividend for 1993 expected to be raised by 43% to 5p

Owners focuses on Cook tie-up

By Richard Gourley

OWNERS ABROAD yesterday increased its estimate of benefits that should arise from its proposed tie-up with Thomas Cook, the travel and financial services group and said it expected to recommend a 5p total dividend for the year to October 1993, a 43 per cent increase over last year.

In the last defence document in which it can introduce new financial information, Owners Abroad said the revised figures further demonstrated that the £265m bid from rival holiday group, Airtroups, understated its value and potential.

The company said the benefits of the tie-up with Thomas Cook, which is controlled by Westdeutsche Landesbank, the German state bank, had risen from its original estimate of at least £7m to at least £9m for 1993-94. Estimates for the following year had been raised from £8m to £11m.

Mr Howard Klein, Owners' chairman, said that if the Airtroups bid succeeded, an enlarged group would have to make savings of £22.3m in the first full year after acquisition and £27.3m in the following year if Owners shareholders were to enjoy equivalent benefits to those that would flow from the Thomas Cook tie-up.

This was based on the fact that Owners shareholders would end up with only 40 per cent of the enlarged group if they accepted the Airtroups share offer.

City observers said that by turning the focus of debate to



Howard Klein: Cook tie up would benefit Owners at no extra cost

the future and what Owners shareholders could expect from Thomas Cook, Owners Abroad had produced its most robust argument yet.

Mr David Crossland, Airtroups' chairman, said Owners had been selective with its figures when the facts showed that the rate of Owners Abroad's improvement in trading over the past year was actually slowing down.

Owners Abroad's revised estimates of benefits have been verified by its auditors, BDO Binder Hamlyn, and advisers, Samuel Montagu. The increased estimates followed a better understanding of the retail arrangement [with Thomas Cook], said Mr Geoff-

rey Stone, finance director.

Mr Klein said these arrangements would benefit Owners at no extra cost. Thomas Cook would be marketing Owners Abroad's Enterprise brand standard family summer holidays in a brochure that carried the Thomas Cook name.

Thomas Cook had a similar one year deal with Sun World, and estimated from that experience that it could deliver Owners Abroad with 80,000 additional passengers on this product in the first year.

There was already a similar marketing of Owners' up-market Sovereign brochure and its flight-only Falcon brochure, which was being wrapped with the Thomas

Cook name; and Owners would also market Thomas Cook's high cost, high margin, Faraway Collection holidays with a Sovereign wrap.

Mr Klein said the increased estimates for the benefits of the tie-up were based on the assumption that 40 per cent of the passengers promised by Thomas Cook would have switched from Owners' holidays and could not, therefore, be counted as new business.

In the year to end-September 1993, Airtroups will, however, have the help of acquisition accounting. Airtroups could provide for the losses on Owners Abroad's winter operations, writing them off against the balance sheet, but could take all Owners Abroad's summer profits to the enlarged profit and loss account.

This would dramatically enhance earnings per share because of the highly seasonal nature of profits in the holiday business. Owners Abroad made a £28m loss in its 1991-92 winter, but profits of £56m in the second half.

If the bid succeeded, Mr Klein said: "this year could be a fantastic year [for Airtroups] but watch out for next year" when the winter losses would depress 1994 profits.

Mr Crossland said no shareholders would be looking at an enlarged group's ops this year. What really mattered was the year ending September 1994, when Airtroups would have chosen the brochures and decided the pricing and would have had a full year with Owners Abroad.

Isosceles may settle refinancing next month

By Maggie Urry

ISOSCELES, the parent of the Gateway food retail chain, put its business plan to its 38 banks yesterday morning and now hopes it can finalise its £1.4bn refinancing next month.

This would be well before May 28, the expiry date of the standstill agreed with the banks before Christmas.

The meeting is believed to have been positive. Since Mr David Simons became chief executive on January 4 he has apparently impressed the banks that he is getting a grip of a business which had suffered several top management changes.

The business plan, which won approval from OCA&C, the management consultants, will form the basis of the refinancing. It also sets out the group's balance sheet being tailored to its ability to service debt.

The refinancing is expected to involve a debt for equity swap, although not as large as earlier estimates, in part thanks to the fall in interest rates. Equity holders will be severely diluted.

Mr Simons has rapidly simplified the structure of Gateway. He has also put the development of new retail formats on hold while making a priority of ensuring the shops are properly stocked, tidy and have chiller cabinets that work. Development of computer systems is also a priority.

Suppliers to Gateway had precipitated the pre-Christmas standstill as they became nervous about Gateway's credit standing. The standstill agreement allowed those suppliers and Gateway to understand not to have had to draw on an extra working capital facility provided at that time.

However, there is a fear that suppliers could again become concerned as the May 28 deadline approaches and this is putting pressure on the group and its banks to reach an early agreement.

Severn Trent to pay £33m for East Worcester Water

By Andrew Adonis

SEVERN TRENT, the Midlands water and sewerage group, is buying East Worcester Water, a small supplier, for £33m.

East Worcester is the latest in a string of acquisitions this year by the "big 10" water and sewerage companies privatised in 1989, but the first of the 22 small water companies to be purchased by one of the 10.

The agreed deal has been cleared by Ofwat, the water industry regulator, after assurances that a high proportion of the prospective savings will be passed on directly to customers.

Ofwat said it expected to see East Worcester's former customers gain an average of £18 each over the next two years as their prices come into line with those of Severn Trent.

Mr John Bellak, Severn Trent chairman, said the arrangement had "strong commercial logic". The activities of East Worcester are well known to Severn Trent and the two companies have a long history of working together.

East Worcester's 100,000 customers, all south of Birmingham, are among the 3.3m receiving sewerage services from Severn Trent.

East Worcester is owned by Biwater, the water engineering group which also owns Bourne-mouth and West Hampshire Water companies. Its 1992 results, released earlier this week, showed a pre-tax profit of £3.88m on a turnover of £13.7m.

Mr Alan Booker, Ofwat's deputy director general, said Severn Trent's customers would benefit from greater security of supply and East Worcester's from lower prices.

He cited the 1990 Three Valleys merger, cleared by the government after a reference to the Monopolies and Mergers Commission, as a precedent.

The "big 10" are the sole providers of sewerage services, and supply water to more than three quarters of households in England and Wales.

Of the 22 small suppliers, almost half have been acquired in recent years by three French companies - Compeg-

ne Général des Eaux, Lyonnaise des Eaux-Dumex and SAUR. Eight have shares listed on the Stock Exchange.

Mr Bill Dale, water industry analyst at Warburg Securities, said Severn Trent's move was unlikely to lead to a rush of bids for the "big 10" for the smaller companies. "Looking around the regions, there are not any other immediate candidates."

In December Severn Trent reported interim pre-tax profits of £141m, with an interim dividend of 7p out of earnings of 37.5p a share. It was criticised by Ofwat for "erring too much in favour of shareholders and too little on the side of the customer."

In response, Mr Bellak pointed to £585m of investment in the previous financial year and an understanding that dividend growth was "above inflation."

Severn Trent is the seventh of the "big 10" to make a sizeable acquisition this year. Earlier this week Welsh Water paid £56m for Aser, the engineering consultant group.

Write-downs expected to hit Ladbroke

Ladbroke Group's 1992 pre-tax profits, due out on Thursday, are expected to show a substantial fall following the first above-the-line write-down of its £1bn property portfolio.

The write-down is estimated at 15 per cent, or roughly £150m. Previous provisions have eroded balance sheet reserves, causing the latest cuts in valuations to be taken as a charge against profits.

Before property provisions, profit is forecast to fall from £210m to less than £180m. The provisions do not represent an outflow of cash. When Mr Cyril Stein, chairman, was asked about the prospect of a property write-down last September, he commented that if one were made, it would only be "a book entry".

It would not affect the final dividend, which the board was planning to hold at 6.23p, making a total of 11.15p.

The figures are expected to include gains of about £40m from hotel sales - a profit source vulnerable to the new VRS 3 accounting rule. While Ladbroke's Hilton International hotel chain continued to experience difficult markets last year, analysts are hoping to hear that the pound's devaluation has brought signs of life to London hotels. On the other hand, Texas Homecare, the DIY chain which was the star performer in 1991, is thought to have suffered a downturn since black Wednesday.

Scottish & Newcastle links with Mansfield to boost lager sales

By Tim Burt

SCOTTISH & Newcastle, the brewing and leisure group, yesterday announced a commercial partnership with Mansfield, the east Midlands brewer.

Under the agreement, Mansfield will stop brewing Marston draught lager and instead supply its 426 pubs with S&N's McEwans.

In return, the Edinburgh-based group is selling 11 pubs to Mansfield for £2.2m and will stock the brewer's cask conditioned beers in some of its 1,871 outlets.

Mansfield shares rose 17p to 702p on the news. Scottish & Newcastle closed up 1p at 438p. Mr Jim Merrington, corporate affairs director at S&N,

said the deal would offer new outlets for McEwans while Mansfield, which has been seeking acquisitions outside its core Midlands region, would gain new pubs in Lincolnshire and Yorkshire.

Although he declined to reveal the details of the financial agreement, Mr Merrington said: "The £2.2m is the value of the pubs and does not represent a payment to S&N."

Industry analysts said the Midlands brewer is likely to have been offered an S&N loan to buy the pubs and predicted the group would recoup the outlay through additional volume sales of McEwans.

S&N expects to sell an extra 30,000 barrels a year through Mansfield outlets at a profit of

up to £20 a barrel.

Mr Colin Stump, commercial and marketing director at Mansfield, said: "We do have a finance agreement with S&N to help us find the £2.2m which is on favourable terms. Our strategy is one of continual growth and we're very much on the acquisition trail." Further big purchases would be financed through borrowing, he added.

This latest acquisition follows a large expansion last year when Mansfield bought 112 pubs from Courage.

Net revenue for the six months to January 31 improved to £293,000 (£279,000) for earnings per income share of 14.67p (14.3p). A second interim dividend of 10p is being declared making an unchanged 20p so far.

Administrators put Platt Saco up for sale as recession bites

By Andrew Baxder

PLATT SACO Lowell (UK), one of the UK's biggest remaining textile machinery manufacturers, has been put up for sale by administrators from KPMG Peat Marwick.

The company emerged in 1982 from the controversial receivership of Stone-Platt Industries with new owners, the oddly-named South Carolina company John D. Holling-

sworth on Wheels.

However, it has been hit recently by a worldwide slump in orders for its cotton processing equipment.

Earlier this month directors asked a court to put the business into administration, giving protection against creditors while allowing time for attempts to be made to sell it or turn it round.

Mr Mike Seery and Mr Peter Terry from KPMG, appointed

joint administrators, are trying to sell Platt as a going concern. Platt had turnover of £10m last year.

Its present workforce, following eight redundancies in the administrative staff, is 260.

KPMG said yesterday that Platt had state-of-the-art manufacturing technology, and had an international reputation for its spinning and fibre preparation equipment.

Strong second half helps Mallett to £0.52m

By Peter Pearce

MALLETT, the antique dealer, saw pre-tax profits halve from £1.2m to £0.6m in the year to December 31, though this disguised a strong second-half performance. And last year's figure included an exceptional credit of £690,000.

The company recently broke off merger talks with an unnamed company, thought to be Asprey, the silver, jewellery and luxury goods company.

Having incurred pre-tax losses of £485,000 in the first six months, the company made profits of £1.1m before exceptional items in the second half. Mr Peter Dixon, company secretary, ascribed the turnaround to the global improvement in the art market in general, sterling the ERM and its devaluation, alongside a dividend is maintained at 6.5p.

(£3.39m), though operating profits climbed to £802,000 (£577,000). Interest payable doubled to £176,000 (£84,000).

The exceptional charge of £108,000 related to the relocation of all Christopher Wood Gallery activities into the New Bond Street premises.

Earnings fell to 2.22p (5.96p) per share and after the passing of the interim final dividend of 5p is recommended. Last year's total was 4.5p.

Hotspur Invs

Hotspur Investments lifted its net asset value from 310.5p to 354.7p per share over the 1992 year.

The trust's net revenue dipped to £54,366 (£56,266) for earnings of 6.5p (9.11p) per share. A dividend is maintained at 6.5p.

Sphere proposes creation of new packaged share

By Philip Coggan, Personal Finance Editor

SPHERE Investment Trust, a split capital trust, has revealed a proposal to create a new packaged share, combining the current income and zero dividend preference shares.

The move reflects concern at the trust that its investment performance was being obscured by the volatile nature of the different classes of capital.

Split capital trusts are designed to maximise demand by creating securities that have tax advantages for different classes of investors. In

recent years, there has been an explosion of split issues, particularly linked to Personal Equity Plans, where income and profits are tax-free.

Some critics feel, however, that such structures can be complex and risky and may result in confusion among small investors. The Sphere change is designed to create a security with similar characteristics to those of ordinary shares in a conventional investment trust.

The Package unit will comprise 6 ordinary income and 7 zero dividend shares. It should be less volatile than either of the existing classes of share.

Gabicci in discussions with a possible buyer

By Catherine Milton

GABICCI, the USM-quoted casual clothing group, yesterday admitted it is in talks with a possible buyer after speculation about a bid caused a fluctuation in its share price this month.

The group also warned that its interim results for the six months to December 19 1992 were likely to fall short of expectations.

Gabicci's share price fell to a little above 20p earlier this month from a plateau of about 45p at the end of last year. They closed at 47p yesterday.

Rival clothing companies,

Helene and Campari International, are seen as potential bidders.

Campari sells to a younger market than Gabicci, but a merger would allow for rationalisations in design, sourcing and distribution since the two groups are virtually neighbours in North London, one analyst said.

However, he added, although Campari is cash rich, the group was likely shortly to announce profits down by about 35 per cent and might lack institutional support for acquisitions. Gabicci was in talks with Helene last year but discussions collapsed in November.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Current dividend	Total for year	Total last year
Alexanders	nil	Apr 7	1.04	-	4.19
British Assets	1.07	May 7	1.37	-	3.94
Isotron	1.51	Apr 30	10	-	40
Tor Inv Trust	10	Apr 16	0.5	-	1
Waterman Partners	0.5	Apr 16	0.5	-	1

Dividends shown pence per share net except where otherwise stated. *On increased capital. *USM stock. †For first quarter. ‡Second interim.

LONDON RECENT ISSUES

Issue	Price	Change	Volume	Value	Value
1st F.P.	100	100	100	100	100
2nd F.P.	100	100	100	100	100
3rd F.P.	100	100	100	100	100

FIXED INTEREST STOCKS

Issue	Price	Change	Volume	Value	Value
1st F.P.	100	100	100	100	100
2nd F.P.	100	100	100	100	100
3rd F.P.	100	100	100	100	100

RIGHTS OFFERS

Issue	Price	Change	Volume	Value	Value
1st F.P.	100	100	100	100	100
2nd F.P.	100	100	100	100	100
3rd F.P.	100	100	100	100	100

TRADITIONAL OPTIONS

Issue	Price	Change	Volume	Value	Value
1st F.P.	100	100	100	100	100
2nd F.P.	100	100	100	100	100
3rd F.P.	100	100	100	100	100

Alexanders falls £1m into the red

ALEXANDERS Holdings, the Ford main dealer, reported a pre-tax deficit of £998,000 for the year ended September 30 1992.

That compared with a pre-tax profit of £405,000 for 1991 and came from turnover up from £28.4m to £29m. Losses per share came out at 2.15p (0.65p earnings). The balance sheet shows a deterioration of net assets from £2m to £2.7m.

As a result of an investigation instigated by Mrs Aleksandra Clayton, the chairman, prior year adjustments have been made to the profit and loss account amounting to £1.57m, of which £1.35m relates to 1990. A further loss has to be borne in the 1992 accounts on surplus and over-age used vehicle stock.

A charge of £289,000 has been made to the profit and loss account and to the revaluation reserves relating to the properties at Greenock. This was offset by a profit of £280,000 on the sale of two of the properties. A revaluation of the other properties in the group as at end-September 1992 has led to a drop of £1.06m from their 1989 value.

Tor Investment net asset value up 14%

Net asset value per capital share at Tor Investment Trust

increased 14 per cent from 1063.5p to 1214.4p over the 12 months to the end of January. The income share figures improved from 141p to 144.4p.

Net revenue for the six months to January 31 improved to £293,000 (£279,000) for earnings per income share of 14.67p (14.3p). A second interim dividend of 10p is being declared making an unchanged 20p so far.

Arcadian trims loss to £302,000

Losses at Arcadian International, the property investor, developer and project manager, were cut from £599,000 to £302,000 over the six months ended October 31.

A drop in turnover to £196,000 (£2.41m) reflected the absence of property disposals. First half losses took in exceptional credits of £205,000 (£107,000). Losses per share emerged at 4.3p (8.7p).

Difficult times for BG Shin Nippon

Baillie Gifford Shin Nippon had a difficult net asset per share of 111.1p at the year end January 31, against 86.5p at the halfway stage and 134.4p 12 months earlier.

The net loss for the year was £134,631 against £106,552. Losses per share came out at 0.54p (0.65p). The directors said it had been another difficult year in the Japanese stock market with the Tokyo second section index falling 28.4 per

cent in yen terms and by 14.5 per cent in sterling terms.

IMC Industries lower at £202,000

IMC Industries reported pre-tax profits for the six months to October 31 down from £301,000 to £202,000 on turnover almost tripled at £2.97m, against £1.02m. Earnings per share fell from 0.13p to 0.09p.

The USM-quoted company said that its acquisition of Alpine Soft Drinks and development of the video tapes side had partly made up for the reduced contribution from the Skyview inflight entertainment operation.

The company is a subsidiary of Cuscor (Fifty-Two).

Greenwich Comms cuts loss to £57,000

Reduced pre-tax losses of £57,000 were announced by Greenwich Communications, the USM-quoted television service and property rental group, for the year to August 31 1992. Previous losses amounted to £763,200.

Mr Alan Walling, the chairman, said that, as indicated last year, the company's revenue sources had been reduced to two - Tex House rental income, still not fully let due to the glut of property on the market in the Woolwich area, and Greenwich Television Portugal, the 80 per cent owned Portuguese subsidiary which had produced a pre-tax profit of £32,000 (£21,000 losses).

Turnover improved from £288,700 to £421,700 and there were exceptional losses of £39,800 (£24,200).

Losses per share were cut from 10.9p to 0.9p.

de Morgan losses cut to £131,000

de Morgan Group, an adviser on all aspects of commercial, industrial and retail property, achieved a reduction in pre-tax losses from £214,000 to £131,000 for the six months ended October 31.

The improved results reflected in part higher turnover of £287,000 (£273,000) and further significant cost savings. Operating costs were cut to £1.1m (£1.57m).

SEET reduces deficit to £65,000

Pre-tax losses at SEET, the Edinburgh-based textile company, were reduced to £65,000 in the six months to October 31. That compared with a deficit of £455,000 for the comparable period in pre-tax losses of £330,000 for the year to April 30.

Sales for the half year increased by 39 per cent, from £3.7m to £5.14m, and the group was able to reduce borrowings by more than half with the £1.2m proceeds from the sale of Kenneth Mackenzie Holdings. Losses per share were cut to 1.3p (10.5p).

BBB Design reduces deficit to £165,000

BBB Design Group, which is involved in design, marketing and computer related activities, cut its pre-tax losses from £189,000 to £165,000 in the six months to October 31 1992. Turnover improved to £374,000 against £286,000.

Mr Philip O'Donnell, chairman of the USM-quoted company, said the design, publishing and marketing operations had been profitable.

He said the group would be looking towards an upturn in sales, particularly in the computer services division which had reported reduced losses during the first half.

Losses per share increased to 1.89p (1.77p).

North of England Building Society

North of England Building Society achieved a rise in pre-tax profits from £15.4m to £16.7m in 1992.

Total income amounted to £24.1m (£23.7m). The pre-tax result was after higher management expenses of £15.4m (£13.5m) and increased provisions of £1.05m against £44,000.

Group assets grew by 16 per cent to £1.42bn.

LONDON STOCK EXCHANGE Dealings

Details of business done shown below have been taken with effect from last Thursday's Stock Exchange Official List and should be reproduced without permission.

Details relate to those securities not included in the FT Share Information Services.

Prices otherwise indicated prices are in pence. The prices are those at which the business was done in the 24 hours up to 5 pm on Thursday and settled through the Stock Exchange Teller system, subject to the relevant data in ascending order which denotes the highest and lowest dealings.

Those securities in which no business was recorded in Thursday's Official List the latest recorded business in the four previous days.

555(2) stocks are not regulated by the International Stock Exchange of the United Kingdom and the Republic of Ireland Ltd. Bargains at special prices. Bargains denote the previous day's closing price.

Bargains, etc.

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UK Public Boards

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Commonwealth-Government

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Foreign Stocks, Bonds, etc.

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1000	-100	98.75	98.75	99.00
2000	-100	98.75	98.75	99.00
3000	-100	98.75	98.75	99.00
4000	-100	98.75	98.75	99.00
5000	-100	98.75	98.75	99.00
6000	-100	98.75	98.75	99.00
7000	-100	98.75	98.75	99.00
8000	-100	98.75	98.75	99.00
9000	-100	98.75	98.75	99.00
10000	-100	98.75	98.75	99.00
11000	-100	98.75	98.75	99.00
12000	-100	98.75	98.75	99.00
13000	-100	98.75	98.75	99.00
14000	-100	98.75	98.75	99.00
15000	-100	98.75	98.75	99.00
16000	-100	98.75	98.75	99.00
17000	-100	98.75	98.75	99.00
18000	-100	98.75	98.75	99.00
19000	-100	98.75	98.75	99.00
20000	-100	98.75	98.75	99.00
21000	-100	98.75	98.75	99.00
22000	-100	98.75	98.75	99.00
23000	-100	98.75	98.75	99.00
24000	-100	98.75	98.75	99.00
25000	-100	98.75	98.75	99.00
26000	-100	98.75	98.75	99.00
27000	-100	98.75	98.75	99.00
28000	-100	98.75	98.75	99.00
29000	-100	98.75	98.75	99.00
30000	-100	98.75	98.75	99.00
31000	-100	98.75	98.75	99.00
32000	-100	98.75	98.75	99.00
33000	-100	98.75	98.75	99.00
34000	-100	98.75	98.75	99.00
35000	-100	98.75	98.75	99.00
36000	-100	98.75	98.75	99.00
37000	-100	98.75	98.75	99.00
38000	-100	98.75	98.75	99.00
39000	-100	98.75	98.75	99.00
40000	-100	98.75	98.75	99.00
41000	-100	98.75	98.75	99.00
42000	-100	98.75	98.75	99.00
43000	-100	98.75	98.75	99.00
44000	-100	98.75	98.75	99.00
45000	-100	98.75	98.75	99.00
46000	-100	98.75	98.75	99.00
47000	-100	98.75	98.75	99.00
48000	-100	98.75	98.75	99.00
49000	-100	98.75	98.75	99.00
50000	-100	98.75	98.75	99.00
51000	-100	98.75	98.75	99.00
52000	-100	98.75	98.75	99.00
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54000	-100	98.75	98.75	99.00
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56000	-100	98.75	98.75	99.00
57000	-100	98.75	98.75	99.00
58000	-100	98.75	98.75	99.00
59000	-100	98.75	98.75	99.00
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61000	-100	98.75	98.75	99.00
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64000	-100	98.75	98.75	99.00
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66000	-100	98.75	98.75	99.00
67000	-100	98.75	98.75	99.00
68000	-100	98.75	98.75	99.00
69000	-100	98.75	98.75	99.00
70000	-100	98.75	98.75	99.00
71000	-100	98.75	98.75	99.00
72000	-100	98.75	98.75	99.00
73000	-100	98.75	98.75	99.00
74000	-100	98.75	98.75	99.00
75000	-100	98.75	98.75	99.

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● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring 1071 873 4378

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US MARKETS
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RESEARCH (continued)

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1. The first step is to identify the problem or question that needs to be answered. This involves understanding the context and the specific requirements of the task.

مكتبة الإمام أبي جعفر

AMERICA

Dow unmoved by New York explosion

Wall Street

AN explosion and fire at New York's World Trade Centre at midday yesterday initially failed to disrupt trading on the New York and American stock exchanges, although the small order execution system was suspended, writes Karen Zagor in New York.

At 1pm, the Dow Jones Industrial Average was down 0.27 at 3,365.37. The more broadly-based Standard & Poor's 500 was off 0.32 at 442.02, while the Amex composite was 0.35 higher at 406.78, and the Nasdaq composite rose 2.02 to 689.09. NYSE trading volume was 138m shares by 1pm, and rises outnumbered

declines by 899 to 832. On Thursday, the Dow closed up 8.84 at 3,365.14.

Regular Nasdaq trading was uninterrupted at midday, but some trading floors were evacuated because of the fire. About 149 Nasdaq terminals were knocked out by the fire and ceiling collapse.

Market settlement was mixed, in spite of an upward revision of gross domestic product for the fourth quarter to an annual rate of 4.8 per cent, above an earlier estimate of 3.8 per cent.

Among active big board issues, Wal-Mart gained 3/4 to \$32.40, and Kroger slipped 3/4 to \$16.40. Tobacco stocks remained active, with RJR Nabisco adding 3/4 to \$85 and

Philip Morris 3/4 to \$66.14. In the auto sector, General Motors held steady at \$37.40, Chrysler rose 3/4 to \$38.90 and Ford fell 3/4 to \$48.

Rollins Environmental dropped 3/4 to \$8 after the US brokerage, Alex Brown, cut its rating on the stock from "neutral" to "sell" following the shutdown of the company's Texas incinerator.

Telefonos de Mexico climbed 3/4 to \$49.10 in active trading after Bear Stearns increased its rating to "strong buy" to reflect expectations of continued operating profit growth.

In the big board technology sector, shares in Hewlett-Packard fell 1/4 to \$75 and Digital Equipment fell 3/4 to \$47.40 after a new technology analyst

at Kemper Securities issued an initial "neutral" rating on the stocks and suggested that investors swap into them from IBM and AMDahl. Shares in International Business Machines rose 3/4 to \$54.10.

The biotechnology bellwether stock, Amgen, was unchanged at \$97 in Nasdaq trading. The stock dropped more than 90 on Thursday following disappointing first quarter earnings projections.

Many Nasdaq technology stocks were broadly lower at midday, with Intel off 1/4 to \$11.75, Seagate Technology down 3/4 to \$13.40, Apple Computer off 3/4 to \$33.10, and Dell Computer easing 3/4 to \$31.10.

Shares in Butterfield Food & Drug tumbled 1/4 to \$17 after

the company posted fourth quarter operating income of 3 cents a share against 35 cents a year earlier.

Canada

TORONTO turned down at midday in brisk trading, pressured by losses in gold and banking stocks, although renewed interest was noted in small-capitalisation shares and some oil companies.

The TSE 300 index fell 18.1 to 3,440.90 at midday in turnover of C\$271m. Advancing issues led those declining by 254 to 238 with 243 unchanged.

Weak gold miners, including American Barrick, down C\$5 at C\$21.10, and Placer Dome, C\$4.10 easier at C\$15.60.

Dutch cyclical falter as defensives strengthen

The dichotomy remains, writes Ronald van de Krol

The dramatic demise of Daf in recent weeks is a disturbing sign of the times for long-suffering cyclical stocks on Amsterdam's stock exchange.

In spite of past predictions that cyclical shares were about to take off, investors continue to focus on defensive stocks such as banks, insurers, publishers and food companies. This leaves chemicals, paper and transport groups languishing on the sidelines, awaiting the return of 20 per cent in 1993 compared with some 7 per cent in 1992.

At Kempen & Co, Mr Kokko Tuin comments that quality stocks will continue to benefit from re-rating by foreign investors, who have realised that the market is comparatively

poised for a rally, but the rises later stalled in the absence of substantial interest rate cuts by the Bundesbank and the lack of evidence of economic recovery. Currency devaluations in Britain, Italy and Scandinavia in the autumn presented new problems for cyclical shares, which are heavily dependent on European exports. In the end, the 3.5 per cent increase in the general share index in 1992 was carried by the publishers, banks and insurance companies, which both registered gains of more than 20 per cent, helping to overcome a decline of nearly 40 per cent in paper stocks and other cyclical sectors.

Still, analysts say, the importance of cyclical shares should not be exaggerated, but they do obscure the strength of other parts of the market.

Mr de Jong notes that the cyclical companies account for just 10 per cent of the market's equity capitalisation, compared with the 30 per cent share held by manufacturing and cyclical shares in Germany.

Although the cyclical companies may be grabbing the headlines, their relatively small market share means that Dutch listed companies as a whole are forecast to show profit gains in 1993 - analysts' estimates range from 7 per cent to 13 per cent - while Germany's companies could well see flat results. This suggests well for the market, as do expected lower interest rates and a stable dollar.

In the short term, however, attention is focused on 1992 earnings. A climax of sorts will be reached on Thursday, when DSM, which has a big presence in cyclical bulk chemicals, Philips, considered by some analysts to be a cyclical share, and Heineken, a classic defensive stock, all unveil results.

The market has already discounted a halving of DSM's dividend to 7.1 in 1993. But Tuin of Kempen says: "If the dividend turns out to be F13.1, think DSM could fall by 10 per cent."

Twice during 1992 cyclical seemed

cheap and that Dutch companies have strong balance sheets. This has led investors to pay more than 18 times earnings for recession-proof publishers such as Elsevier and Wolters Kluwer.

There is room for further price gains in 1993, he says, but they will be relatively limited. "We see the general share index at somewhere between 210 and 220 points by the end of the year," Mr Tuin says. Since the beginning of the year the index has risen some 6.3 per cent.

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EUROPE

German banks gain on wages settlement

RENEWED speculation that the Bundesbank might ease interest rates next week provided a backdrop to yesterday's activity, writes our Markets Staff.

FRANKFURT accelerated Thursday's uptrend, with specific strength in banks and construction stocks as the DAX index rose 25.44, or 1.5 per cent to 1,684.35, 0.4 per cent higher on a mixed week.

Turnover rose from DM5.4bn to DM7.9bn. Deutsche Bank leading in DM1.3bn with both Dresdner and Commerzbank also making the top ten active stocks list. The sector liked the 3.3 per cent banking wage settlement, well below expectations according to Mr James Hyde of Williams de Broe, construction saw good results from Bilfinger & Berger, and Strabag.

Banks were led higher by Commerzbank which has shown relative strength in advance of, and now after, its rights issue with a DM6 gain to DM253. Mr Hyde said that the underlying improvements in its costs and income were enough to offset its problematic loan book.

Bilfinger put on DM50 to DM990 in a sector where 3 to 5 per cent gains were the order of the day, as the market was

brought to see that the sector, this year at least, seemed recession proof.

But it was a building materials company which really outperformed. Heidelberg Zement closed DM75, or nearly 8 per cent higher at DM1,050. Mr Michael Geiger of NatWest Securities reckons that the company could see a 50 per cent jump in net profits for 1992, with the elimination of losses in the US and the growth of its building additives business in the eastern German refurbishment market.

PARIS closed higher but most of the activity was accounted for by technical trading as turnover rose to a hefty FF4.7bn. The CAC-40 index closed 39.07 higher at 1,983.71, 2.4 per cent higher on the week.

In the corporate sector, speculation that Pernod Ricard might be a takeover target, possibly for a UK group, pushed the shares up FF19.50 or 5 per cent to FF147.00. The Alcatel index rose FF10 to FF140.10, or reports that it might be seeking a partner.

In spite of a US broker's downgrade, Elf rose FF10.70 to FF377.40 on firmer oil prices while financials all gained on hopes for lower interest rates with Société Générale

FT-SE Actuaries Share Indices

February 26	Open	High	Low	Close	THE EUROPEAN SERIES
FT-SE Actuaries 100	1131.72	1132.90	1131.82	1132.50	1132.50
FT-SE Actuaries 200	1185.61	1186.28	1185.01	1184.02	1184.02
FT-SE Actuaries 300	1225.08	1225.08	1224.11	1223.78	1223.78
FT-SE Actuaries 400	1278.13	1278.13	1277.14	1276.89	1276.89
FT-SE Actuaries 500	1325.08	1325.08	1324.11	1323.78	1323.78
FT-SE Actuaries 600	1378.13	1378.13	1377.14	1376.89	1376.89
FT-SE Actuaries 700	1425.08	1425.08	1424.11	1423.78	1423.78
FT-SE Actuaries 800	1478.13	1478.13	1477.14	1476.89	1476.89
FT-SE Actuaries 900	1525.08	1525.08	1524.11	1523.78	1523.78
FT-SE Actuaries 1000	1578.13	1578.13	1577.14	1576.89	1576.89

One week 100 (25/2/92) High: 100 - 1148.22 Low: 100 - 1156.78 Low: 100 - 1157.27 Low: 100 - 1158.14

moving up FF721 to FF645. MILAN turned its attention to insurance stocks as the cabinet discussed plans for pension funds. Generali fixed L550 higher at L34,860, before rising to L35,550 after hours. RAS added L974 to L34,883 while Allianz gained L782 or 5.3 per cent to L14,112.

The Comit index rose 6.41 to 513.21 or 2 per cent on the week, refusing to be deflected by the growing political scandal or Moody's decision to put the country's foreign debt rating under review for a possible downgrade.

Contiindex dipped L31 to L1,219 with analysts noting that news of the investigation of its former chairman Mr Raul Gardini would have no impact on the company. Sme gained L73 to L1,261 in response to Thursday's announcement by Iri, the state

holding company, of criteria for the food group's flotation.

ZURICH's SMI index rose 38.1, or 1.8 per cent to 2,093.4, down 0.8 per cent on the week. After the bank's 1992 results, UBS bearers rose SF8.8 to SF9.99 in active trade. Mr Frederick Hasler of Swiss Volksbank in Zurich said that while the UBS profits were at the lower end of expectations, the SF9.2 a share rise in dividend was a positive move and that investors were relieved that no rights issue had been announced.

The chemicals sector, under heavy pressure early in the week, bounced back on the week, with prices falling to low 30s or 3 per cent to 97, although trading volume was reported to be low.

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ASIA PACIFIC

Nikkei makes modest gain on arbitrage

Tokyo

EQUITIES moved in a narrow range ahead of talks between the Group of Seven finance ministers, and the Nikkei average closed marginally higher in quiet trading, writes Emiko Terazono in Tokyo.

The Nikkei closed up 45.96 at 16,553.35, fractionally lower on the week, after moving between 16,894.82 and 16,585.35. Share prices were led by futures trading, rising at the close on arbitrage buying. Volume remained flat at 250m shares against 259m. Gains led losses by 459 to 459, with 188 unchanged, and the Topix index of all first section stocks rose 6.01 to 1,294.31. In London, the S&P/Nikkei 50 index lost 0.34 to 1,033.33.

While some uncertainty remains over the currency markets and direction of the yen after the G7 meeting, traders said that the stock market is likely to remain around 17,000 for another two to three weeks.

Exporting companies,

Roundup

PACIFIC Rim markets generally continued their firm performances.

HONG KONG moved strongly ahead in heavy trading as hopes of a resumption of Sino-British talks on the colony's future brought strong demand from foreign investors.

The Hang Seng index rose 148.11 - 2.4 per cent higher on the day and 2.9 per cent on the week - to 6,331.59 in turnover that rose to HK\$4.57bn.

HSBC Holdings, HK\$1.5 higher at HK\$95, and Hang Seng Bank, HK\$3.25 ahead at HK\$63, which will be among the first companies to announce annual results next month, led the active list.

TAIWAN was also a strong performer as investors gave a broad welcome to the new cabinet and the market rose 2.9 per cent to a seven-month high. The weighted index added 121.75 to 4,278.83 or 3.3 per cent on the week in turnover of T\$68.5bn, the heaviest since May 1991.

Financial shares were

actively sought on the view that the new finance minister Lin Chen-kuo would resist efforts to resume privatisations in the banking sector.

AUSTRALIA was revived after a quiet start by the expiry of almost \$2m options, which helped the All Ordinaries index to pick up from an early decline to close 2.7 higher at 1,608.6, 0.9 per cent higher on the week.

Amoeb issues in which options were exercised. News Corp and TNT each closed 1 cent lower at A\$7.46 and 73 cents respectively, while Fletcher Challenge rose 2 cents to A\$1.82.

SINGAPORE retreated after three recent sessions as investors awaited details of the budget which came after the market closed. The Straits Times Industrial index fell 15.46 to 1,854.50, 1.5 per cent higher on the week.

LONDON SHARE SERVICE

11

When honesty means sharing your bribes

Corruption investigations are threatening to unravel the Italian state. A former official tells Robert Graham how the system worked

CORRUPTION in Italy has gone beyond the bounds of decency. So vast is the scale of rotteness now being uncovered that a whole ruling class risks being indicted. Already, the courts are being overloaded with the weight of investigation and the prosecutions have scarcely begun. For the first time, a democracy is having to confront the uncomfortable question: if the system is corrupt, to what extent should individual guilt be pursued?

Roberto Mongini has had time to reflect on the question. This 46-year-old Milanese lawyer, and one-time rising star in the Christian Democrat Party, was arrested last June and spent 17 days inside the bleak walls of Milan's San Vittorino prison. He was released after confessing to exploiting his position as vice-president of the Milan Airports Authority to collect illicit funds for the party, and went immediately on a pilgrimage to Lourdes to come to terms with his fall from grace.

Mongini claims to be at peace with himself now although he has lost his seat on the party's national executive and his political career is over. With the complicity of a convert to honest government, he admits collecting nearly £500m (\$410,000) in bribes - a sum he considers small by the standards of what was going around him. "I willingly accepted to be part of the system and therefore cannot regard myself as a victim," he says. "At a personal level, I don't consider myself a criminal. Indeed, I consider myself personally honest; nevertheless, I admit I formed part of a dishonest system."

This ambivalent moral credo seems to have been shared by a great many others who either turned a blind eye to corruption or connived in creaming "commissions" off the top of every type of economic activity. The magistrates' investigations range from road-building and ports to the Milan and Rome metros and the space agency, football stadiums and overseas aid to restructuring the chemicals industry. No European democracy has ever witnessed corruption investigated on such an all-embracing scale. Questions are being asked about the ability of the courts to cope with the case-load.

"We are not confronted with isolated instances of corruption: the entire system was like that, from Milan to Sicily," says Mongini. "Wherever you look, you will find illicit financing, it was the Italian way

of doing things." Antonio Di Pietro, the leading Milan investigative magistrate, says of the snow-balling investigation: "I don't see how it can finish. In just one day, 14 or 15 persons came wanting to confess stories of bribery to me. We can't go on like this." He adds: "We will proceed with the penal side... but some sort of political clarification is necessary which goes over and above the magistrature - otherwise, there is the daily risk of something happening with serious impact on the economic system... Besides, the judiciary cannot be expected to uncover everything."

The construction and general contracting business - the sector exposed most to the magistrates' enquiries - is slowing to a halt throughout Italy because businessmen fear being accused of bribery. The

'The reception centre at San Vittorino prison has become like the foyer at La Scala - where you see anyone and everyone'

entire political establishment and its long-standing incestuous relationship with the business community is being called into question.

Magistrates have talked of having to put 60,000 people through the courts if everybody involved in corruption is charged. More than 50 members of parliament are being investigated for corruption and two party leaders, Bettino Craxi of the Socialists and Giorgio La Malfa of the Republicans, have been forced to step down in the past two weeks. More than 400 witnesses will probably be called in the scrutiny of road contracts alone. One Milan magistrate has suggested that the city's corruption scandal - over 110 people have been arrested and more than 300 questioned - will provide the local judicial system with work for the next decade.

As the complete gamut of Italy's institutions - and the people who run them - are dragged into the magistrates' net, the country's democracy risks being weakened. A number of politicians, including Craxi, have made this point. However, it is difficult for the politicians to take action without being seen as self-serving.

When Milan magistrates began to expose corruption with a series of arrests a year

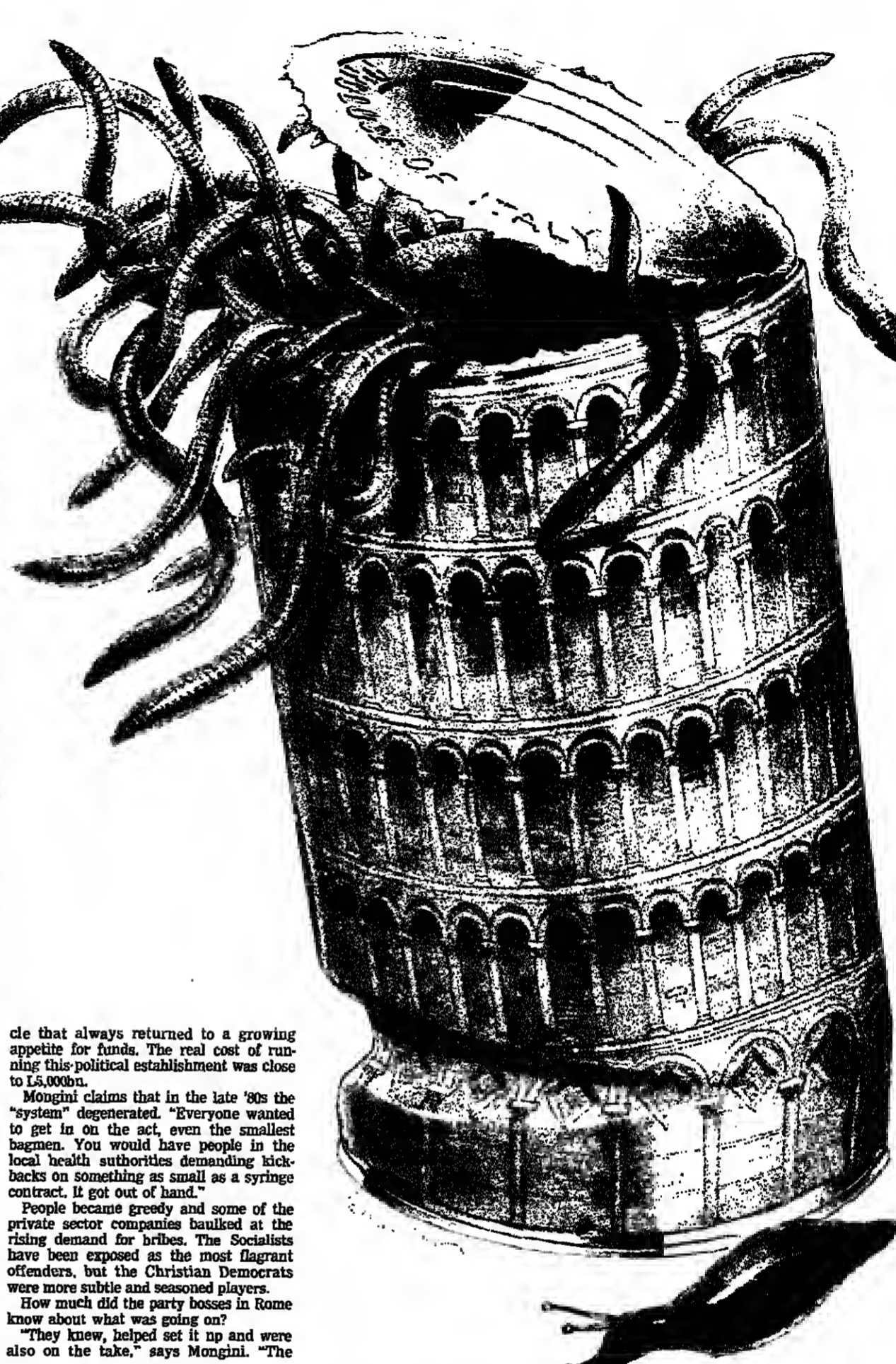
ago, the reaction in the press was surprise: surprise not that such wrongdoing existed but that it had come to light. The Milanese even took a perverse pleasure in saying the exposé was possible precisely because the city had a morality. Naples they argue could never have been the starting place for a nationwide anti-corruption drive.

Now the public is both angry and taken aback by the systematic scale of the corruption. "Corruption has always existed," veteran television commentator Vittorio Orsini said recently. "Like prostitution, it's destined to eternity. It's a question of containing corruption within the bounds of decency. We have descended to the level of Cambodia."

According to Mongini the "system" being exposed dates back to the 1970s. Then the Christian Democrats and their allies were terrified that the powerful Italian Communist Party would come to power through this ballot box. Knowing that the Communists received secret funding from the Soviet bloc, they felt no compunction in seeking their own finance to supplement the small contributions by the state. The Christian Democrats, and then the smaller Socialist Party, rationalised their large organisational infrastructure (including tame newspapers and trades unions) by the need to counter the Communist presence in the unions, the media and co-operative movement.

The "system" centred round the placement of plant executives in state companies and municipally controlled entities who then farmed out contracts on the basis of rigged tenders and accompanying commissions. Alternatively, the parties had people specially delegated to negotiate kick-backs on contracts. With the declining threat from communism in the 1980s, the Communists were allowed to be part of the "system". In the case of Milan, the parties received a fixed percentage of the commissions according to their share of the electoral vote. This covered every public works contract including the metro extension, waste disposal, a new municipal theatre and the modernisation of Linate and Malpensa airports.

As the party bureaucracies swelled, so the need for funds grew. By the 1990s some 120,000 jobs fed off the political system, yet the annual state subsidy to all the parties was less than £100m. And as the ideological differences between parties narrowed, loyalties could only be bought with favours. It was a mutually reinforcing cir-



cle that always returned to a growing appetite for funds. The real cost of running this political establishment was close to £5,000m.

Mongini claims that in the late '80s the "system" degenerated. "Everyone wanted to get in on the act, even the smallest bagmen. You would have people in the local health authorities demanding kick-backs on something as small as a syringe contract. It got out of hand."

People became greedy and some of the private sector companies bailed at the rising demand for bribes. The Socialists have been exposed as the most flagrant offenders, but the Christian Democrats were more subtle and seasoned players. How much did the party bosses in Rome know about what was going on?

"They knew, helped set it up and were also on the take," says Mongini. "The

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The Long View / Barry Riley

Chemical reactions



SO ICI has decided to tear itself in two lest the bell should toll for the one-time bellwether. Its decision to reconstitute itself as Zeneca is a clear indication that the British economy no longer determines the shape of the stock market, but rather the other way around.

I have referred before to the curious fact that the UK equity market has consistently outperformed many overseas markets in spite of the poor showing of the British economy. It happened again last year when the total return on UK equities was 20.6 per cent against 16.4 per cent on the World ex-UK index.

Over the past decade the average UK annual return has been 18.8 per cent compared with 15.6 per cent overseas. Yet economic growth in Britain has averaged only 2.3 per cent a year over this period compared with 2.7 per cent in Germany and the US and 4.1 per cent in Japan. Industrial production has trailed still more badly in the UK.

The share price action of ICI, of course, corresponds more closely to this dismal industrial picture. The UK stock market has been lifted by certain service sectors and by the monopoly utilities privatised at giveaway prices in the past ten years: these account for 11 per cent of the market's value and nearly 20 per cent of the underlying profits. Elsewhere, about half the profits of UK-listed companies are earned overseas. The poor old British economy has less and less relevance.

The share price action has generally been good, but tension between British companies and their mainly institutional shareholders is regularly apparent. The 1980s takeover boom and the subsequent corporate governance debate were symptoms of that. So long as the shareholders are fed with a regular stream of dividends, however, there is little trouble. Between 1982 and 1992 capital investment by industrial and commercial companies grew 2.8 times (in nominal terms) but dividends increased twice as much. During the

past two years of recession dividends have climbed 20 per cent while investment has been cut back by 13 per cent. There can be logic in this. Companies in adversity. Resources that cannot be invested profitably should be returned to shareholders. The shareholder's interest can be identified with national interest so long as the rest of the world is playing the same game. If not, the efficient stock market may operate as a doomday machine for the destruction of domestic industry. High returns may only be achieved at a price.

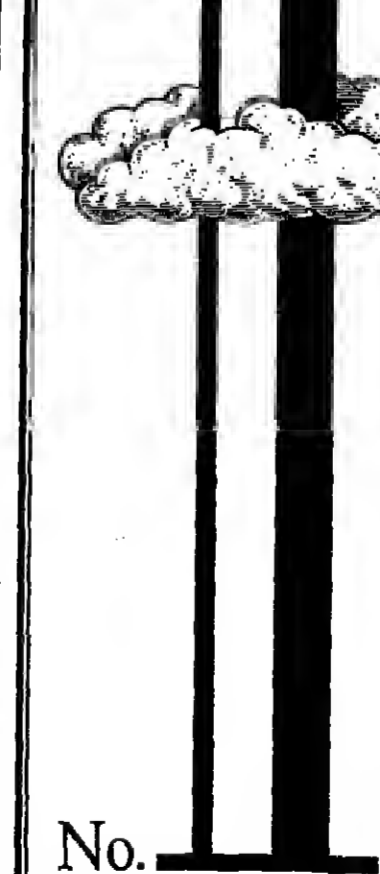
The aloofness of the British governing classes and the City of London from domestic industry has long been notorious. It was again highlighted by a document called *Britain, Europe and the Square Mile*, published earlier this month by the European Policy Forum. In pleading the City's special self-interest in European integration, the paper argued that if the UK detached itself from the core of the European community there would be a risk to foreign direct investment. It did not explain why the UK has become so much more dependent on foreign investment than any other large EC economy.

Meanwhile, in this year's wave of rights issues, the City has been eagerly helping UK companies make large acquisitions. As these companies rely more and more on foreign earnings they find it difficult to maintain dividend growth without exhausting their UK tax allowances. Typically, their response is to call for tax concessions from the British government rather than to adopt the low payout policies of companies in most economies.

Dividends are generally sparse in other leading industrial countries because the effective ownership of industry is in the hands of the state, of interlocking domestic corporate interests including banks, or of private families. None of these interest groups have much need for income: all have a strong commitment to the domestic economy. The free-wheeling British structure

leads, in contrast, to an international portfolio approach on the part of both institutional investors and corporate empire-builders. The US is rather similar, but is better-placed to protect its industries - as in the latest row over steel anti-dumping duties, and the renewed Airbus dispute - than the UK.

Here is a rough-and-ready summary of the recent decline of British industry. The profit-driven corporate sector has consistently withdrawn resources from underperforming sectors, specially heavy industry, a trend exaggerated by phases of extreme overvaluation of sterling. There were arguments in favour of this in the context of a growing and liberalising global economy, but we are moving into an era of recession and protectionism. Recent policies have led to the appearance of a structural trade gap. Eventual devaluation has been the logical response, but this will bring help on any substantial scale only to labour-intensive manufacturing sectors. Heavy industries which are, say, energy-intensive, and face subsidised competition, will gain little benefit. ICI has long cross-subsidised its heavy chemicals operations but this anomaly has been ruthlessly exposed by the stock market, prompted by Lord Hanson. The rump of ICI will stand little chance of survival.



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MARKETS

ICI forges ahead with a split personality

Paul Abrahams assesses the implications for the small investor after the UK's biggest demerger

ICI repeat the demerger success of BAT and Cadbury



SO IMPERIAL Chemical Industry's board pushed the green button. On Wednesday afternoon, at an historic meeting, it decided to split the UK's biggest manufacturer into two parts. The following day, the group's executives announced the decision. They also revealed an horrendous £380m pre-tax loss on £120m of turnover, and a £940m provision for restructuring.

The demerger plan, to be confirmed at an extraordinary general meeting in May, is to create a fully-independent quoted company called Zeneca. This will comprise ICI's drugs division, its agrochemicals and seeds operations, and most of its specialty chemicals businesses. Zeneca's demerger will be followed by a £1.5bn rights issue to reduce ICI's debts.

Investors in ICI will be given one Zeneca share for every existing ICI share they own. They will retain their existing holding unchanged, though they will then be given the option of buying additional shares in the rights issue.

On the day of the announcement, ICI's shares rose 70p to £11.52. Yesterday they rose another 55p. That does not mean the market necessarily thinks that the demerger is a good idea. Institutions have been off-loading the stock for weeks, fearing an immediate 50p rights issue on Thursday.

The ICI board has decided to maintain the dividend at 50p, in spite of bleak trading prospects, so institutions have been picking up stock in preparation for the dividend on March 15.

What happens to the share price once the stock goes ex-dividend should prove interesting. Some private investors

may want to forsake the dividend, sell the stock, benefit from the sharp rise in the share price and avoid the dangers and complications of the demerger and rights issue.

But what of the prospects for those investors who decide to stick with the separated groups? Will the split be as successful as those of BAT or Courtauld's?

ICI, according to Alasdair Nisbet, of UBS, faces a black hole - that of the continental economy, which is rapidly decelerating. That will have a knock-on effect on the chemicals groups. Cefic, the European chemicals association, estimates that growth in west European chemical demand

will slow in all product sectors this year apart from fertilisers. In 1991, about 25 per cent of new-ICI's turnover was on the continent, with a further 25 per cent in the UK. Only 19 per cent was in the fast-growing Asia-Pacific region and 28 per cent in the US where the economy appears to be recovering slowly. Ronnie Hampel, new-ICI's chief executive, said the company would get no help from the world economy over the next 12 months.

Nevertheless, a happy combination of cost cutting and currency benefits could enable ICI to leap gracefully over the black hole.

Hampel plans a rigorous cost-cutting campaign. The

company is proposing yet another restructuring and a further round of job losses - 7,000 staff will leave the group over the next three years. Charles Lambert of broker Smith New Court believes that the job losses alone could eventually save about £200m a year. In addition, this year's figures will be helped by the devaluation of sterling on what Sir Denys Henderson, the chairman, calls "sunny Wednesday". On a rule of thumb, every cent the US dollar falls adds between £2m and £3m to ICI's pre-tax results. Lambert estimates that currency benefits - at about £150m - will form the largest element in ICI's earnings

improvement this year.

The danger is that ICI might leap - and then tumble into the hole. If it does, the group's promise to maintain the dividend at 27.4p during 1993 looks hard to keep. Much of the share price rise at the end of this week was based on the promise to maintain the dividend. If ICI looks as if it will break that promise its shares could be in trouble.

An economic recovery has already been discounted into ICI's share price, although recovery is far from certain. Nisbet at UBS says that if the market has underestimated the benefits of currency and the recovery, then investors might prefer to pick up second tier

chemicals stocks rather than buying more ICI.

The UK, following the devaluation, is the best place in Europe to manufacture chemicals at the moment, according to Nisbet.

On the other hand, one final reason for buying ICI might be to pick it up as a takeover play. US broking houses in London have been making noises about a hostile takeover aimed at breaking up the business.

However, new-ICI will have £500m of debt after the demerger. Some analysts believe the board left it there as a poisoned pill to prevent such a takeover.

Zeneca poses a problem for

investors. Drugs stocks are out of favour at the moment. Institutions have piled out of defensive stocks such as pharmaceuticals and invested in cyclical companies instead.

Even if the recovery is some way off, institutions are unlikely to move back into drugs stocks for fear of missing out on the recovery when - and if - it comes.

An added disincentive for pharmaceuticals stocks is pricing pressure, particularly in the US. President Clinton will not reveal his health care reforms - which could affect the drugs groups - until May, almost the same time as Zeneca's rights issue.

As for Zeneca, the company

is not even a pure drugs stock, given that more than 60 per cent of its sales concern agrochemicals and specialities. It will have to be valued at a discount to groups such as Glaxo and Wellcome.

Should investors take up their rights? The answer depends on Zeneca's price and the discount being offered by the company and underwriters.

Zeneca's operating profits actually dropped from £882m in 1991 to £587m last year. Most of the decline was due to the expiry of the US patents for Tenormin, Zeneca's top drug and once the world's fifth best-selling medicine, generating sales of nearly £1.2bn a year. American sales fell up to 50 per cent last year.

David Barnes, Zeneca's chief executive, believes US sales of Tenormin will stabilise soon at about 25 of its peak. Meanwhile, revenues from newer products are increasing rapidly.

Sales of Zestril, a heart drug, improved 30 per cent, while Diltiravem, an anaesthetic, and Zoladex, a cancer treatment, both rose by 50 per cent.

There may also be some recovery potential from the specialist business, especially dyes, which represent about 30 per cent of the division's £360m turnover. These have been suffering from the recession in the textiles industry.

Zeneca's 27.4p dividend offers a yield of about 5 per cent - far higher than traditional drugs stocks. Given that its earnings can only move up, if the company is offered at the right price, Zeneca could prove an unattractive, but valuable, stock to acquire.

London Markets

Equities are bowled over by Gooch

By Maggie Urry

THERE IS one explanation for the behaviour of the equity market this week - it has been tracking the performance of the England cricket team touring India.

After a downcast start - when England, already two down in the series lost the third and final test - shares ended the week in much brighter mood. A 46-run-win in the final one-day international prompted a 38.3 point rise in the Footsie index yesterday, which ended the week at 2890.0, a gain of 28 points.

Perhaps the much criticised England selectors have been guilty of the short-termism charge often aimed at fund managers - picking one day winners, rather than a side with staying power.

The real reason for the market's performance, though, is that investors have spent the week focusing on the ICI announcement which was made on Thursday.

Monday, Tuesday and Wednesday were occupied with fears that ICI would cut its dividend or launch an immediate rights issue, or both. Thursday brought relief on both counts, and the market began to rise. The rally gathered pace yesterday.

Thursday's 11.7 point rise could much to a 70p jump in ICI's share price. But yesterday's increase, with ICI up another 55p to 120.6p, suggested buying interest was more widespread.

Another feature of the market this week was that the Footsie did better than the 100 index. The second tier index includes a large chunk of

recovery stocks and has greatly outperformed the Footsie since Black Wednesday last September - a day which Sir Denys Henderson, ICI's chairman, persists in calling Sunny Wednesday.

A better performance by the front line stocks suggests that UK investors are turning away from recovery stocks to more mainline shares and also that overseas investors are beginning to buy the UK equity market.

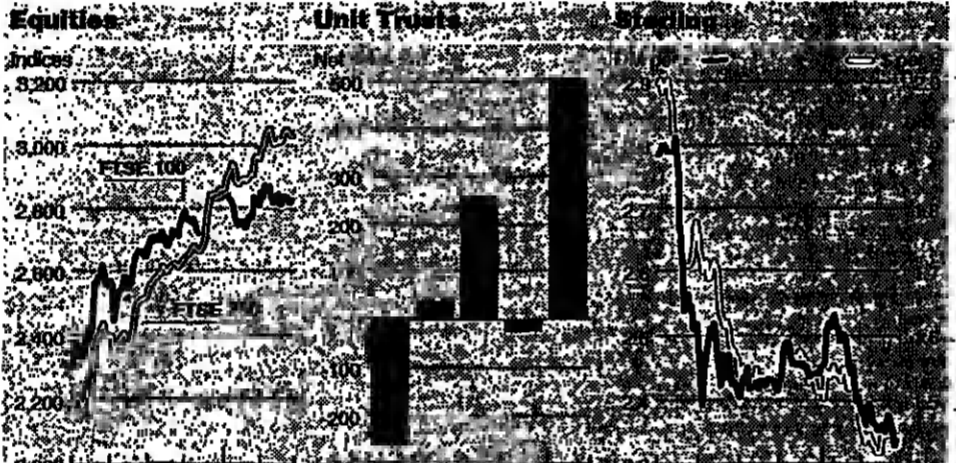
The big deterrent for foreign investors of late has been sterling's collapse since Sunny Wednesday. While the pound was in free fall, no non-startling based investor would look at the UK market. But there is now the beginning of a belief that sterling - which hit another record low against the D-Mark this week - is near its bottom.

If foreign investors can be confident that the pound will at least stabilise at these levels, they can start looking at yields on UK equities which are attractive compared to other equity markets, and in some cases compared to cash and bonds.

ICI, to pick a stock at random, yields 8 per cent with the promise of a maintained dividend in the current year too.

There is another group of investors which has been wary of buying shares but have changed their view. UK private investors are back in the market, as evidenced by unit trust sales which topped £500m net of repurchases in January.

Ignoring the cynics who believe that unit trust investors always buy at the top, this could be another good sign for



the market. Individuals have seen the rates they get on savings accounts shrink as base rates fall. When they can get a higher income from shares, and the chance of capital gain, they are not slow in shifting their cash.

It may be clenching at straws, but a new-found interest from foreign and private investors could form the basis of another run in the equity market. While institutional

companies which have staged issues have generally done well, and the take up of issues such as Burton's and Asda's has been high, the demand for new equity allied with the government's desperate need for cash to plug the gaping budget deficit has been weighing on investors' minds.

At least some companies are trying more imaginative ways to raise money, and ones which could put less of a burden on the UK institutional investors. A series of bond issues, convertibles and fixed rate, have been launched.

This week's crop included a convertible from BPF, the plasterboard group, which was accompanied by a forecast of a dividend cut on the ordinary shares, and a £100m bond from Royal Insurance, which also announced lower losses.

A couple of large, cash takeovers bids would do even more for share prices, but that may be too much to hope for.

Perhaps surprisingly, the market seems less concerned about the economy than for some time.

Fourth quarter gross domestic product figures on Monday, revealing a tenth quarter of recession, were shrugged off. Discussion about what the budget might bring has yet to become intense. There is just the assumption that base rates will be cut again. Even the latest job losses stories have had little effect on a market which knows that unemployment continues to rise long after a recession turns to recovery.

The beginning of the com-

pany results season has so far brought few nasty surprises. Even apparently huge pre-tax losses, such as British Aerospace's £1.2bn and ICI's £380m, are being ignored. The excuse is that the introduction of new accounting rules, which make companies take all one-off losses and profits into the pre-tax figure, means that the losses are not "real".

Equally Shell appears to have largely got away with making a £131m provision against foreign exchange losses, putting the blame firmly on the Japanese associate where the currency speculation took place. Top managers there did the decent thing.

Indeed, there has been some good corporate news this week. It must be encouraging that Unilever could increase pre-tax profits 13 per cent to £20m in spite of the recession, and that SmithKline Beecham could raise profits 11 per cent to £1.1bn.

Encouraging may not be the word to apply to Amstrad's sudden return to profits. Shareholders in that company must have been more than a little surprised to see a profit and an interim dividend from the consumer electronics group.

Only last December Amstrad's chairman and chief executive Alan Sugar was telling them that the outlook was so bleak they should accept his 30p a share offer. Shareholders are having to pay the £1.1m cost of defending the company from its own chairman. The shares finished the week at 27.4p, up 3p.

Serious Money

The taxman, the free gift and the BES

By Philip Coggan, Personal Finance Editor

IS THE government going to crack down on the business expansion scheme? As the deadline for abolition at end-1993 grows closer, the industry is getting ever more ingenious in its ways of exploiting the tax shelter, and could be taxing the Inland Revenue's patience.

This week, there was news of a battle between the Revenue and Johnson Fry over tax relief on two schemes. Election Protection, and part of the Oxbridge Colleges Cash-Backed plan. The dispute is over an investment in a hall of residence at University College, London.

All BES properties must be let only on assured tenancies. But because the university let the property to foreign students during the summer vacation (after Johnson Fry and UCL had exchanged contracts, but before Johnson Fry paid for the property), the Revenue is claiming the scheme broke the BES rules. It should not, therefore, attract tax relief.

This could be dreadful news for investors in the schemes, since they make little sense as investments per se, the return depends almost entirely on the tax relief. Johnson Fry and its lawyers contend, however, that the schemes should attract tax relief, and it emphasises that those who invested in the non-UCL part of the Oxbridge fund (such as the Balliol college scheme) are not affected.

The dispute caused one BES issue, from Capital Ventures, to be withdrawn this week and may have raised fears of a general assault by the Revenue on the industry. Given the structure of many recent schemes, with top-rate taxpayers earning 20 per cent plus profits in six months, it would not be surprising if the taxman were to be fishing for revenue.

For the moment, however, it seems clear that the dispute is

limited to university-backed schemes and, even there, will affect only those using existing halls of residence.

The bank and building society schemes continue to flourish, such as the Gracechurch issue launched by the London-based Barclays de Zoete Wedd. Backed by Barclays bank, it offers a non-recourse loan enabling higher-rate taxpayers to get back 74p after six months, equivalent to an annualised return of 30 per cent. This facility is not suitable for basic-rate taxpayers. Prospective investors are available from a limited number of Barclays branches, or from BZW.

Such schemes are, effectively, gifts from the broad mass of taxpayers to top-rate payers and lenders with repossessed properties on their hands. The chancellor seems willing to allow this, for want of a better way of soaking up the burden of repossessed properties. Those who can take advantage of the plan will rub their hands in anticipation of profits; those who do not will grind their teeth if other taxes go up in the Budget.

income (such as capital or zero shares). But a conventional trust can offer both: the yield might be low but, if the trust rises in price, the investor can sell some shares and use the proceeds as income.

Say you are a top-rate taxpayer with £100,000 in income shares, which yield 8 per cent; your annual income would be £8,000 gross, or £4,800 net. If you owned a conventional trust, you might enjoy a 5 per cent dividend yield and 5 per cent capital growth.

The dividend on the conventional trust would pay only £3,000 gross, or £1,800 net. But if you sold £5,000 of shares, you might pay no tax at all on the proceeds if you have no other capital gains that year. As Angus puts it: "The £5,000 capital gains tax exemption is the greatest undiscovered tax break available to the small or medium-sized investor - much more powerful than PEPs."

Even allowing for dealing costs of 5 per cent, the investor in the conventional trust would still have a net return of £6,550, far higher than the income share investor.

Furthermore, Angus argues that the conventional trust could well produce a better performance in the long run than a split trust, which might have to tailor its holdings to suit the demands of its different classes of shareholders. "Conventionally-structured trusts are investment-driven, while split-capital trusts are structure-driven," he says.

Angus's views are a timely reminder for investors that they should not ignore conventional trusts. Indeed, the volatility of split shares yesterday prompted Sphere to reveal proposals for a packaged unit; in other words, creating an instrument which behaves like a share in a conventional trust. That could prove a stroke in the wind...

Wall Street

Markets still playing it cool with Clinton

THE WHOLE may usually be greater than the sum of the parts. But occasionally, the parts still steal the limelight.

That was the case on Wall Street this week. Having spent much of the previous week focusing on the grand economic strategy and the implications which the Clinton plan may have for the speed at which the US pulls out of recession, the market switched its attention to the slightly more predictable effect on individual industries. For the likes of biotechnology, tobacco and luxury consumer goods stocks, this was not a happy scrutiny.

Admittedly, the macro-picture was not forgotten altogether. On Tuesday, publication of the monthly Conference Board report on levels of consumer confidence sent stock prices tumbling across a number of sectors.

The Conference Board calculated its index for February at 98.5, more than eight points lower than the level registered

in January. To compound the gloom, its survey had been conducted two weeks before the Clinton package was announced to Congress. Even at this stage, it seemed, confidence was becoming increasingly wary about the recovery's strength.

The stock market, seeing some of its worst fears confirmed, took the news fairly badly. The Dow Jones Industrial Average fell by almost 20 points, although the broadly-based Standard & Poor's 500 index showed a much smaller loss. Even in this instance, however, the declines were concentrated among mainline "consumer stocks". The three carmakers, for example, shed 4 to 6 per cent of their value, while many of the nation's largest retailers also posted

significant declines.

Thereafter, the remainder of the week's trading was erratic. Faced with a paucity of "hard news" or fresh economic data, dealers and investors turned to a wave of rumours and to "niche" considerations of individual stocks or sectors, in an effort to stimulate business.

No rumour proved more powerful than the whisper that President Clinton was about to cap credit card interest rates and, according to some sources, finance charges on other forms of consumer credit. The suggestion duly provoked a denial from the Treasury - but not before some credit cards stocks had lost, and then regained, about one-fifth of their market value.

Tobacco stocks fell prey to the same type of treatment.



before edging down again as the week's trading drew to a close. By Friday lunchtime, Philip Morris shares were trading at \$68, only 1% away from its 52-week low.

The story within some other sectors was a little more rational. For some time, drug companies have sent the new President's attacks on their pricing policies translate into substantial share price falls. This week, however, attention focused more heavily on the biotechnology stocks. Compounding the general uncertainty over health care reform implications, a couple of biotech companies released pessimistic announcements - thus accelerating the sector's general decline.

Angus, for example, warned that first quarter sales and

profits would be significantly below Wall Street's expectations. Synegen revealed that a drug, designed to treat septic shock, had not performed up to expectations in clinical trials. The company's shares fell over 30, to around \$27 on the news. The latter lost \$25%, to \$13.

Some investors may wonder when this speculation-driven trading will be replaced by a more solid trend. Few traders think that this is likely in the foreseeable future. The full implications of the Clinton package - in particular, the details of health care reform - will take months to unfold. Even then there are numerous political hurdles to surmount.

Nevertheless, despite all the phumgs and rallies, the Dow Jones Industrial Average has

moved by a net 30-odd points since President Clinton first appeared on the nation's television screens explaining the broad outlines of his deficit reduction plan - scarcely the most momentous of movements.

Meanwhile, the rate at which the economy was recovering at the end of 1992 remains debatable; on Friday, for example, the authorities released a revised estimate for fourth quarter economic growth suggesting that growth at an annualised rate of 4.5 per cent, up from a previous estimate of 3.5 per cent.

In short, uncertainty about both the recent past and the immediate future. Wall Street is taking the obvious course. It is simply waiting to see.

Nikki Tate

Monday	3342.99	+ 20.15
Tuesday	3233.27	- 19.72
Wednesday	3282.41	+ 49.14
Thursday	3303.14	+ 20.73

FINANCE AND THE FAMILY

So many Peps — but which is best for you?

Philip Coggan seeks guidance through a financial maze

MARCH is fast becoming the personal equity plan season. There is nothing like a deadline to make investors open their wallets, and the approach of the end of the financial year on April 5 turns their mind to tax-free products.

Logically, it would have been better for investors to buy Peps in August, when the FT-SE 100 index was at 2,280, than now, with the market trading in the 2,600s. But with investors limited to one general Pep a year (see guide below), there is a natural tendency to wait for the "best product." Also, with base rates at 6 per cent, those savers who previously were content to leave all their money in the building society may now be considering Peps for the first time. A stream of these has been launched over the past few weeks, with the specific aim of attracting investors who want income.

Perhaps the most ingenious is Hypo Foreign & Colonial's Higher Income plan, which offers a yield of 10 per cent after charges through use of the options market. The product looks very attractive but is very complex and investors should take financial advice before parting with their cash.

There is a danger that people will rush into Peps for the wrong reason. Any equity-based investment involves risk; you should not buy a Pep if you are likely to panic should your investment fall by 10 per cent six months from now. These are investments for the long term, which means at least five years.

You should also watch to see that the charges do not eat up the tax benefits. This is a particular problem for a basic-rate taxpayer, who might find it better to buy some unit or investment trusts directly, rather than in Pep form. It is rarely suitable for a non-taxpayer to buy a Pep.

How does the investor sort through all the Peps on offer to find the one that best suits his or her needs? One useful source of information is the Chase de Vere Peguide, which publishes details of around 700 plans and is available for £9.95 from Chase de Vere Investments, 53 Lincoln's Inn Fields, London WC2A 3JX.

BEST Pep (tel. 071-936 2037) produces a free background guide and makes recommendations, for a charge of £25. Like Chase de Vere, it refunds the charge if an investor then buys a Pep.

To guide readers through the maze, we asked financial advisers to give their views on the Peps that would best suit three different types of investor.

Basic-rate taxpayer individuals in their 30s who want to save for the long term.

John Cole, of Berry, Birch & Noble, says a younger person probably will look for a managed fund, as offered by a unit or investment trust. "You don't

want to go for a yield as high as 6 or 7 per cent," he says "but it would be wrong to go for a fund with no yield at all."

Cole says a unit trust such as Perpetual's High Income, or an investment trust such as Murray Income, might be suitable. Richard Boyton, of Boyton Financial Services, recommends the Killik self-select Pep where charges are 1.85 per cent for dealing and a levy of £7.50 per dividend. He recommends that investors then select the Scottish Value investment trust. Says Boyton: "This fund has outperformed the FT-SE 100 index by over 50 per cent since September 1991."

David Harris of Chantrey Vellacott says that young people "might well use a Pep to back their mortgage. Peps represent the best long-term vehicle for this."

He adds that such people should opt for a cautious capital growth approach, linked to either a unit or investment trust. "Statistics show that



individuals in this age group tend not to invest the maximum £5,000 and to elect for regular monthly savings. I would choose fund managers with a strong record who figure regularly in the top 25 per cent of performers. My particular selections would be the Schroder Pep linked to its UK equity fund, or Foreign & Colonial's Pep investment trust."

Mark Bolland of Chamberlain de Broe also favours Peps for mortgage repayments. "They are tax-efficient, and cheaper and far more versatile and flexible than an endowment. The only thing they lack is an insurance element, and that can be arranged more efficiently by other methods."

"Ideal vehicles are the investment trust savings schemes. These are comparatively cheap and the returns can be outstanding. Someone kicking off with a reasonably small amount could invest in the old favourites, Foreign & Colonial and Alliance. A couple could put up to £250 per month into these trusts, which have very attractive long-term returns and are broadly diversified internationally."

"Those in a position to save more, could look to other regular savings schemes in the UK/EC trusts such as the City of London, Guinness Flight's Temple Bar trust, or Kleinwort Benson's Merchants Trust."

Top-rate taxpayers in their 50s who are aiming to save for their retirement.

Harris favours a slightly more aggressive stance for people in this category, who may want to consider a self-select Pep. "My choice would rest between the Charles Stanley gold Pep, for execution-only deals, and the Alliance Trust Pep, although this requires the first £1,500 to be invested in Alliance investment trusts and has a restricted list of direct shares."

"For more conventional investors, I would choose the Perpetual self-select Pep linked to their UK growth fund, or for international exposure, Baring's Maxi-Continental plan linked to their European Growth trust."

Cole says such investors might view their Pep as an extension of their general equity portfolio and will probably opt for a self-select plan.

Bolland says: "The nature of the investment needs to be considered carefully, given that a tighter time scale is involved. If there is only five years until retirement, too much risk is unwise."

"Suitable vehicles would be the Cazenove and Newton income Peps. The former is a low-cost plan investing specifically in utilities and hoods, offering a high yield. If anything, the drawback with this approach is limiting exposure to a narrow range of equities. I like the Newton fund because of its excellent long term record for growth and income."

Boyton again opts for the

Killik self-select Pep but linked to Morgan Grenfell's Equity Income fund, yielding 5.4 per cent gross. This would give a tax-free income of £224, which equates to a gross yield of 9 per cent before tax.

Retired basic-rate taxpayers who need income.

A good yield is obviously the key factor, says Cole. He thinks the choice falls between two plans: Cazenove's Bond and Utility fund; and the Fidelity High Income, which yields 6 per cent and has slightly higher charges but pays a monthly income. "Many small investors are very keen on the monthly option," he adds.

Harris says: "For the investor ready to take a moderate level of risk, I would choose a unit trust-based income portfolio which yields between 15-25 per cent more than the All-Share. A good example is New-Too Income."

"For those willing to take a slightly higher level of risk, investment trust Peps using income shares will provide a higher yield. However, it should be remembered that other classes of shares within the trust have first call on any capital growth and there is a real chance of capital loss. My favourite in this area is the Murray Johnstone Pep, linked to its split-capital trust income shares. Alternatively, the new Cazenove Bond & Utility fund is highly attractive."

Bolland says: "Rather than going flat out for income,

long-term capital and dividend growth should be the targets. A self-select Pep investing in income shares might be appropriate. Care is needed in choosing the income shares, since some involve the possibility of a loss to redemption; the shares selected should be ones which can participate in the capital growth of the trust. A lower risk option might be the Cazenove plan."

For those needing income, Boyton unashamedly recommends a product his own firm has put together, with Killik as plan manager and Olliff & Partners making the share selection. The scheme is a combination of a split-level income investment trust share and a zero dividend preference share.

The anticipated net yield in year one, after charges, is 9.46 per cent. This will rise to 10.52 per cent in year five provided the income section grows by 2.5 per cent per annum. A £10,000 investment is needed, of which £5,000 is invested in a Pep and the balance in zeros. Charges are the normal ones for Killik (see above), 1 per cent initial for Olliff, and £150 payable to Boyton.

For further details on these plans, the phone numbers and addresses of most fund management groups can be found in the managed funds pages at the back of the FT's first section.

THE JARGON EXPLAINED

A PERSONAL equity plan allows an investor to buy stock market investments on which all income and capital gains are tax-free. Individuals are limited to a maximum of £5,000 in most Peps during a tax year (although a single-company Pep (see below), a corporate Pep allows for a full £5,000 investment. Many companies have set up low-cost plans to benefit existing investors; but they must sell their shares and buy them back within the Pep. The costs of this might outweigh the benefits.

Investment trust. A plan which invests solely in the shares of one investment trust, or a small group of them. Since trust charges normally are quite low, most IT Peps will have additional charges. For some investors, particularly basic-rate payers, these extra levies could outweigh the benefits of holding the plan in Pep form.

Managed. A manager (normally a stockbroker, financial adviser or fund management group) selects shares, or a combination of shares, unit and investment trusts. Charges tend to be higher on these plans and performance figures are difficult to come by.

There are many types of Pep available. For those confused by the jargon, they fall into these categories:

Corporate. This is a plan devoted to buying shares in a single company. Confused easily with a single-company Pep (see below), a corporate Pep allows for a full £5,000 investment. Many companies have set up low-cost plans to benefit existing investors; but they must sell their shares and buy them back within the Pep. The costs of this might outweigh the benefits.

Investment trust. A plan which invests solely in the shares of one investment trust, or a small group of them. Since trust charges normally are quite low, most IT Peps will have additional charges. For some investors, particularly basic-rate payers, these extra levies could outweigh the benefits of holding the plan in Pep form.

Managed. A manager (normally a stockbroker, financial adviser or fund management group) selects shares, or a combination of shares, unit and investment trusts. Charges tend to be higher on these plans and performance figures are difficult to come by.

Self-select. A plan where the investor chooses the stocks. A manager still has to do the paperwork, however, and the investor must pay a charge; indeed, the most crucial component in a self-select Pep is the charges. But some brokers will offer advice on the stocks you select; it might be worth paying a higher charge to benefit from this advice.

Single-company. An additional plan which can be added to other types of Pep. Single-company plans are limited to £3,000 a year, and because of the risk of "putting all your eggs in one basket," they are suited best to those with large equity portfolios. But they can also be useful for those who have bought shares through company option schemes. Such shares can be transferred into a Pep without any liability for CGT if the transfer is within 90 days of their purchase via the scheme.

Unit trust. A plan where the money is invested in a single unit trust. In many cases, there are no additional charges; so if you are prepared to buy into a unit trust in any case, you might as well do so via a Pep. But if there are additional charges, you need to make a careful comparison to see if these fees outweigh the tax benefits.

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FINANCE AND THE FAMILY

Insurance salesmen get a blast

Complaints to ombudsman soar over life policy deals, reports Scheherazade Daneshkhu

THE INSURANCE industry's referees, Dr Julian Farrand, this week blew the whistle on some of the selling practices of salesmen. The annual report of the insurance ombudsman showed total complaints had risen 29 per cent from the year before to 5,576 in 1992. But life insurance cases accounted for a much steeper increase of 41 per cent - more than one-third of his workload.

The ombudsman deals with both general and life insurance and resolves disputes with customers who are unhappy with the way a complaint has been handled by their insurance company.

Farrand attributes the rise in life insurance cases to the increasing complexity of policies and the failure of some salesmen to explain them fully. He said it was "disconcerting" that so many fact-finds - the forms filled in by salesmen or advisers detailing the financial circumstances of a client - were not completed fully.

"It suggests that, in the push to produce a sale, important requirements and needs may be overlooked and an unsuitable product selected by the salesman," he added.

A mother and son were sold two life policies and told they would make a reasonable profit after five years. Since these were whole-of-life plans, they got a shock when they came to surrender them five years later. The agent for the company said she had stressed their long-term nature by drawing a graph for the clients showing their growth over 45 years. But the line showed an increase in returns from the beginning of the policy.

Finding for the clients, Farrand noted: "With the aid of a magnifying glass, one might estimate a return after five years of around 30 per cent."

In another case a young woman had been sold a large amount of life cover. The section on the fact-find asking which aspects of insurance were important to her was left blank.

"When reviewing her complaint," Farrand said, "it was difficult to understand why that amount of life cover had been required. After some investigation, the probable answer became clear - that over-selling was involved."

Sales of inappropriate policies are highlighted by the fact that while the insurance company's decision was revised in only 31.5 per cent of all cases investigated by the ombudsman, this proportion rose to 42 per cent when it came to life insurance. Farrand is, therefore, suggesting a "reverse



fact-find" which salesmen would have to complete before the contract was signed. He suggests the customer should ask these questions:

- Whose agent are you?
- How much commission do you get?
- What charges will be made for managing my money?
- Will I do better than with the building society?
- Could I lose money?
- How soon will the surrender value equal the premiums paid?
- Why are you advising me to buy that particular policy?

Allied Dunbar claimed this week that asking a salesman to disclose how much commission he got - a cost which is, ultimately, borne by the customer - was "irrelevant information. It is useless." The Office of Fair Trading has, however, called repeatedly for commission disclosure at a time when the whole financial services industry is under pressure to introduce higher standards of investment protection.

ONE OF the outstanding share performers of the past two years has been Electronic Data Processing. Like some of the other stars of the industry, it showed a big increase in its price even when the market was in the doldrums. From the start of 1991, EDP's share price rose from 70p to around 535p now. Chief executive Richard Jowitt has sold 19,160 shares and fellow-director Philip Smith 15,000 - both at 500p.

Over the past three months, shares in Leslie Wise, the textile company, have outperformed the market by 15 per cent in the run-up to final results, announced last week. Profits fell marginally but earnings were maintained. Stuart Leiton sold 300,000 shares at 60p on the same day results were announced.

Haynes Publishing, known best for books and manuals on cars, barely broke even in 1991 but analysts expect pre-tax profits of £3m-plus for the year to end-May. Chief executive Steven Pearce has sold his entire holding, of 10,989 shares, at 332p.

Angus MacDonald, Director Ltd.

The Prudential said it favoured customers being told the overall expense of the contract and not just the commission. "An insurance salesman could be on full salary or just commission, on a combination of the two," said the Pru. "So, a customer who simply asks the rate of commission might be misled by the answer."

Another area which preoccupied the ombudsman was home income plans. In the 1980s, many elderly people wanting to take income out of their home were persuaded to take out a mortgage and invest the money in an equity-linked bond.

This was supposed to cover the mortgage payments and give them an income. But poor stock market performance and rising interest rates meant higher mortgage payments and investment losses, pushing many into debt.

In cases where the risks of

the investment were not explained properly, Farrand said he would find in favour of the customer. The guidelines he uses for compensation are much better than those employed by the investors Compensation Scheme, from which home income victims have to claim if the company or independent financial adviser selling them the policy is no longer in business.

Last week, the High Court ruled that the ICS was not acting "irrationally" in refusing to award compensation for distress over home income plans, or for money spent by a victim in the belief that this was profit, not capital.

By contrast, Farrand said he expected victims to be returned to the same financial position they had been in before the scheme.

He is also prepared to make awards for distress: one couple was given £3,000 after one of them had a heart attack. In some cases, he will also oblige the insurance company to pay

the victim for the costs of taking professional advice. Pressure is, therefore, expected to increase for compensation arrangements for home income plan victims to be equalised within the industry.

The ombudsman awarded a total of £45m last year, with the highest amount being £120,000 in a case about building insurance. He said he was disappointed that the industry "suffers from some people's apparent inability to recognise that a fraud against it is a fraud against the premium-paying population at large."

Of the general insurance cases, one involved a claim where the insurer refused to cover accidental damage for a Nintendo Gameboy, saying it was not a computer as specified under the policy. But after Farrand consulted the Oxford dictionary, the company agreed to pay out.

The Insurance Ombudsman, City Gate One, 135 Park St, London SE1 9EA.

DIRECTORS' SHARE TRANSACTIONS IN THEIR OWN COMPANIES (LISTED & USM)

Company	Sector	Shares	Value	No of directors
SALES				
Airpump Furniture.....Mac		10,000	46	1
Boat (Henry) & Sons.....C&C		8,000	20	1
Cookson Group.....Ohi		25,000	49	1
Demman's Electrical.....Elcs		30,407	90	1
Elect Data Process.....Elns		34,180	171	2
Filofax.....Pac		75,000	63	1
Greenall Group.....Brew		3,200	13	1
Haynes Publishing.....Med		10,989	36	1
Henderson Admin.....OthF		5,000	47	1
Huntleigh Techlogy.....Hth		2,000	17	1
Leslie Wise.....Text		300,000	204	1
Whitbread.....Brew		25,000	119	1
PURCHASES				
AAH Holdings.....Hth		2,000	10	1
Acas & Hutchison.....Fdhls		10,000	21	1
Anglo Irish Bank.....Bank		90,000	28	1
Barbour Index.....BuSe		6,000	16	1
Capital Gearing Tst.....n/a		5,000	20	1
Citysite Est CULS.....Prop		150,000	30	1
CRT Group.....Buse		55,000	50	1
Filofax.....Pac		10,000	15	3
Hopkins Holdings.....EngG		250,000	83	2
Thailand Int'l ADRs.....n/a		10,000	\$128	1
Ticketing Group.....H&L		2,500,000	41	1
Watergate Int'l Hld.....Prop		600,000	24	3

Value expressed in £000s. Companies must notify the Stock Exchange within 5 working days of a share transaction by a director. This list contains all transactions, including the exercise of options (*) if 100% subsequently sold, with a value over £10,000. Information released by the Stock Exchange 15-19 February 1993.

Source: Directors Ltd, Edinburgh

Pep firm folds

THE CLOSURE 10 days ago of a Winchester-based unit trust manager, Wessex Asset Management - known best as the inventor of the Pep mortgage - a simple but highly cost-efficient product - highlights both the good and not so good aspects of the regulatory system for financial services.

IMRO, the companies' regulator, detected financial strains within WAM in December. With the co-operation of its management, IMRO and other regulators moved to secure investors' funds before WAM's troubles could come to a head. These assets - some £500,000 held in a single unit trust called the Wessex UK Growth trust - are safe in the hands of WAM's trustee, the Royal Bank of Scotland, and a new manager - possibly Cannon Fund Managers - is expected to be appointed soon. Despite all this, the affair still has serious negative implications for investor protection.

Terry Moran, WAM's managing director, blames the company's commercial demise on the system's failure to inform the public of the true cost of competing products and, in particular, its apparent inability to make prospective investors aware of the influence commis-

sion payments have on advisers.

He said: "It is a fact of life that what is in the best interests of the consumer is not always in the best interests of the salesman. Once people are finally made aware of the commission and charges endowments attract, then Pep will take off." He added: "It's sad, but we (WAM) were five to 10 years too early."

Despite receiving hefty front-end commissions, advisers maintain that traditional endowments are safer than unit trust-based Peps because bonuses cannot be taken back once declared and policyholders do not, therefore, run the risk of a stock market crash wiping out their savings.

But the number of traditional endowment policies sold is declining and, even where they are recommended, more than 50 per cent of the total estimated return is likely to be paid in a final "terminal" bonus which is not guaranteed and is equally vulnerable to market adjustment.

For further information about WAM, contact Graham Williams at IMRO (tel 071-522 6022) or John Crichton, Royal Bank of Scotland (071-515 3871).

Paul Nuki

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*Microcap Offer to Buy new units. **Money Management (October 1991)



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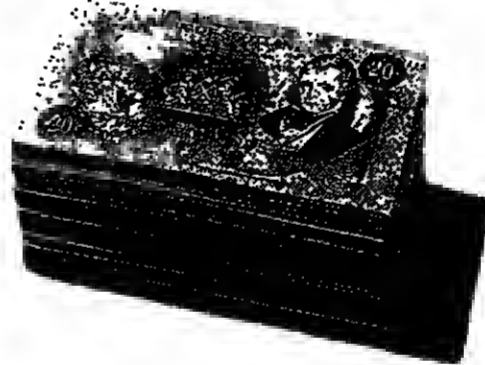
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FINANCE AND THE FAMILY

Better to be safe than sorry

Scheherazade Daneshkhu searches out the best places to store valuables

JEWELLERY, cash and cocaine were among an estimated £40m worth of loot hauled away by thieves who broke into a London safe deposit centre in 1987. The robbery - masterminded by an Italian, Valerio Vicini, who went on to write a book about it - made a mockery of safety deposit centres. But such crimes are few and far between and, since insurance premiums on items such as jewellery can be prohibitively high, they are likely to be far safer kept in a bank than at home.

Most of the high street banks provide safe custody services at their main branches but conditions and charges vary. Of the banks quoted, only Midland does not charge an "access" fee - the amount you have to pay every time you go to inspect your box. Banks will not charge for keeping documents obtained through their services, such as a will drawn up by them or certificates for shares bought through them.

You will be required to provide your own box and key but the banks do not want to know what is being kept in it. Insurance is left to the discretion of the depositor - most insurance companies will reduce their rates if you tell them that



the items are being held in a bank.

The services offered by Lloyds, Midland and Royal Bank of Scotland are for their own customers only. Rates given by Bank of Scotland, Midland and Lloyds include VAT.

Sealed envelopes. The annual charge for holding indi-

vidual certificates ranges from £5 a certificate to £15 but it is much cheaper to keep valuable documents in one envelope. Charges for an envelope, generally no bigger than A4 size, are £5 a year at National Westminster and Royal Bank of Scotland.

The charges at Barclays are £5 a quarter, and £10 a year at Lloyds and TSB Bank of Scot-

land charges £2 half-yearly. Midland's charge is £9.98 but there are no charges for access.

Small boxes or parcels. The cost is £20 a box per year at Lloyds and NatWest and £5 a quarter at Barclays. The minimum charge at Royal Bank of Scotland is £15 a year and £8 per half-year at Bank of Scotland. Midland's fee is £19.97 a year.

Larger boxes or parcels. The charge is £50 a year at Lloyds and £10 a quarter at Barclays. NatWest is cheaper, with an annual fee of £30.

Bank of Scotland will charge a half-yearly fee of either £16 or £22, depending on the size of the box. The annual cost at Midland is £27.02 for a medium size box and £39.95 for larger boxes.

Access. Only at the Midland will you escape fees for inspecting your box or envelope. At Royal Bank of Scotland, the charge is £3 a visit to box or sealed envelope, to a maximum of £12 for any visit. Bank of Scotland charges £2 for an inspection, and the fee at NatWest and Lloyds is £5. Barclays says access charges are at the manager's discretion.

If you want more secure facilities, the Midland is able to hold items in safety deposit boxes which are built into reinforced concrete strongrooms at some of its largest branches in London, Manchester and other big cities. You need to be a customer or to have a letter of introduction from another bank.

There are two locks on the box: the key to one is kept by the bank and the other by the customer. But the service does not come cheap. Charges are £27.85 a year for the smallest size of about 2in x 7in x 20in, up to £2,972.75 for what amounts to a small room (7ft x 4ft 8in x 6ft 6in).

The Chaucery Lane Safe Deposit Co., which owns the London Silver Vaults, boasts a pedigree dating back to 1882. Access to the vaults is past custodians in cubicles, through a series of steel doors and electronic security devices, and with the help of a password.

Customers have to sign a form declaring they are not storing "noxious substances" and are given the "only key in the world" to their box.

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A man, a woman, and the law

MY WOMAN friend and I wish to have a long-term relationship without making any legal commitment. We would pursue our separate careers from separate households but would leave open the long-term possibility of becoming a single household, with or without a formal marriage.

Can our public description of each other create an implied legal commitment? If we referred to ourselves as fiancé(e)s, for example, would it be possible for one partner at a later date to argue that, legally, marriage had been implied, or even offered? Would it be advisable to draw up some legal agreement in order to secure the certainty that no legal commitment is in any way created accidentally? While the use in public of a description such as you mention would not, of itself, give rise to any change in your legal status or liability towards each other, the use of the particular expression "fiancé(e)" might be relied-on at some future date as evidence to support a claim that there had been a contract to enter into marriage. It would be wise to use some such term as "partner," which is not indicative of an agreement to marry.

A formal agreement, which disavows expressly any inten-

tion to become married would help, but it would operate only from the date of the document and would not preclude an assertion that there had been a subsequent change of heart and an agreement to marry.

Rental revenue

I OWN AN apartment in France which is let for part of the year. Tax returns are prepared for me by an agency in France and I have received tax demands from Paris, usually two years delayed. This income has been declared to the British tax inspector. My UK accountant maintains I will have to pay UK tax on the rental income, and obtain a refund if and when the French tax demand exceeds the UK demand. Is this correct? France has the prior right to tax your rental income (by virtue of article 5 of the France-UK double taxation convention) and the UK has to reduce its tax demands by the amount of the French tax, broadly speaking, under article 24(a) of the convention. It looks as though your accountant ought to have submitted repayment claims to your UK tax

Q&A BRIEFCASE

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All enquiries will be answered by post as soon as possible.

office each time you paid French tax.

The rules are outlined in a free pamphlet, *IR5 (Double taxation relief)*, which is obtainable from most tax offices.

For the purpose of calculating the relief from UK tax to which you are entitled, each amount of French tax has to be translated to sterling at the rate of exchange for the day on which it was due for payment (regardless of when it was actually paid). This will be a quite different rate of exchange from that which was used to translate the relevant rental income, of course, so it is not simply a question of comparing the French tax rate with the rate of tax charged in the UK. It is a pity that you did not say when the letting started, as that would have enabled us to give you a simpler answer, but

your remark about the French tax demands being "usually two years delayed" indicates it started some years ago.

The case V assessment for either the third UK tax year or the fourth presumably was based upon the same rent as the previous year's assessment (viz, the second or the third, as the case may be), so that your accountant will have to claim the special relief provided by section 804 of the Income and Corporation Taxes Act 1988 (or section 510 of the Income and Corporation Taxes Act 1970, if the year in question was 1987-88 or earlier).

If your accountant is concerned about having let time limits slip by, he might find comfort in section 805(2) of the Taxes Act 1988.

Defining earnings

I RECEIVE invalidity benefit. I have a wife who is self-employed. National Insurance directive 16A states that I can claim an extra £32 per week provided her earnings are less than £43 per week. She also has investment income. Does the rule really relate to earnings or to her total income?

The leaflet means what it says: "earnings" does not include income from investments.

Time limit on account

I HAVE moved house four times since settling in Scarborough 20 years ago and have used the same pleasant, normally-efficient solicitor each time. But at the end of last year he told me apologetically that, because of an oversight, we had not been charged for our last house purchase in October 1987. We have more or less decided to pay without too much argument but would like to know if there any time limit on presenting a bill for services rendered?

There is a time limit of six years from the date when the money first became due, after which the right to recover the money becomes statute-barred. As the fees will not have been due to the solicitor until the completion of your purchase, it would appear that he has realised his error just in time.

Allowance exceeded

I AM A married woman with no earned income. A large part of my unearned income has been paid gross by virtue of me completing the relevant R85 forms. I now find I have exceeded my personal allowance for the present tax year

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This table covers major banks and Building Societies only. All rates (except Guaranteed Income Bonds) are shown Gross. Fixed = Fixed Rate (All other rates are variable) OM = Interest paid on maturity. N = Net Rate. B = Bond. * = Rate fixed only until 1.7.93. [= Rate guaranteed until 1.5.92. ♦ = Rate guaranteed until at least 1.4.93

Source: MONEYFACTS, The Monthly Guide to Investment and Mortgage Rates, Laundry Lane, North Walsham, Norfolk, NR28 0BD. Readers can obtain a complimentary copy by phoning 0592 500877.

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MINDING YOUR OWN BUSINESS

IT IS quite a leap from years as a Lloyd's broker to heading a company clearing mines in the semi-desert of northern Somalia. But that is the leap Maurice Brackenreed Johnston has made and already it shows results.

Brackenreed Johnston lost his job in October 1989 when Jardine Insurance Brokers, where he was deputy chairman, was reorganised.

"I had no idea what to do," he recalls. "I was 54, with children at school. I knew I didn't want to work for anyone else again."

Brackenreed Johnston heard that Sir David Stirling, founder of the Special Air Services, was worried about his businesses, one in security, the other fighting rural crime in Scotland. The businesses were beyond saving, says Brackenreed Johnston, but "rural crime sounded fun". He and Sir David formed Rimfire to combat poaching in Africa, but Sir David died from a stroke six weeks later.

Rimfire's first sniff of work came in the Middle East, when it pitched for a contract to train special forces in the United Arab Emirates. The timing was bad. "We put our bid in on the day the Gulf War started and that was the end of it."

Through the ill-fated UAE project, Brackenreed Johnston met a mine disposal expert, Mick Fellows, who soon had a chance to prove his worth. Aris Grammaticas, a Rimfire shareholder based in Nairobi, reported that two German nurses had been injured by mines in northern Somalia. Both German Emergency Doctors and the French Medecins sans Frontières were keen for the mines to be cleared. Could Rimfire help?

Northern Somalia has escaped the hunger besetting the south, but it was fought over for 15 years. The war between Somalia and Ethiopia left minefields along the frontier, and in the later civil war against President Barre, mines were sown indiscriminately: under shade trees, by water holes, in houses.

"The people working for me have never seen anything like it, anywhere in the world," says Brackenreed Johnston.

He undertook the Somali contract, he says, out of arrogance and ignorance. He enlisted Fellows's help and did a survey. A professional clearing operation would cost hun-



From risk cover to risk taking: Maurice Brackenreed Johnston in Rimfire's London office

Insurer who entered a minefield

David Spark meets a former Lloyd's broker who now clears mines for a living

dreds of millions of pounds. He proposed instead to recruit British ex-service men to train and supervise local people.

Brackenreed Johnston went to see Abdul Rahman, president of the Somali National Movement. "We like the British," said the president. "But if you train these local people you have to pay them."

"But they'll be working for you," said Brackenreed Johnston.

"We haven't any money," said Rahman.

Brackenreed Johnston went to the Overseas Development Administration in London. "I'd never even heard of ODA before," he recalls.

He went to US Aid in Wash-

ington, to the European Community and to the UN High Commission for Refugees in Geneva which was keen to move Somali refugees from Ethiopian camps. He won a contract worth £1.75m with UNHCR and from US Aid (£490,000), the European Community (£530,000), Medecins sans Frontières backed by the Dutch government (£350,000) and the ODA (£400,000).

Rimfire usually has 12 red-overalled ex-navy and army engineers in Somalia, who can earn over £40,000 a year. They work two months on, one month off. "It's a pretty rotten and miserable job," says Brackenreed Johnston.

They have trained 440

Somali pioneers who, wearing flakjackets and visored helmets, dig with spikes into the ground ahead of them for mines or for hand grenades, often with the pins missing. The ordnance came from Pakistan, Egypt, Britain, Russia, Czechoslovakia, Italy. It includes SAM missiles, 35mm round, leaking toxic fumes.

One mine is like a vacuum flask top. Another, like a pencil box, is attractive to children who make up many of the casualties. Brackenreed Johnston says that for every soldier hurt in combat by a mine, 30 civilians are hurt by mines later.

The initial idea was to clear the frontier mines so that refu-

gees could go home. However, this simply put them at risk in mined villages, so the policy changed. Brackenreed Johnston says that to make the risk to life and limb acceptable will take five more years.

Hargeisa is 200 miles of bad, hazardous road away from the port Djibouti. Brackenreed Johnston has had to take money there himself, hitching a lift in Hargeisa on a relief agency aircraft. Hiring lorries is costly. Rimfire drove its own vehicles to Hargeisa, only for them to be stolen or commandeered by armed locals.

The pioneers, employees of the local government, grumble that their allowances from Rimfire are small. Accidents

raise the question of insurance, for which the aid agencies allocated no money. Two pioneers have been killed and 11 hurt in mine accidents and two Rimfire employees have had amputations after explosions. Casualties in shooting incidents have been higher: five dead and 17 injured. Two of the house staff working for Rimfire have been shot and killed.

Brackenreed Johnston says he finds the Somalis difficult to help. From their early teens many carry AK47s and take the drug qat, brought in by armed convoys from Ethiopia. "The only effective businesses are the drug trade and Rimfire. There is no work, and the only way to get money is by theft. We are in the middle of this."

Rimfire, apart from its Somali work, has surveyed the minefields of northern Angola and is interested in clearing mines in the Falklands.

Brackenreed Johnston expects it to show a £100,000 profit on a £2.75m turnover in the year to May 1993. Rimfire made £35,000 last year and lost £100,000 the year before when it was starting up. Brackenreed Johnston has financed the business with an overdraft of £240,000 and with £140,000 cash put up by himself and two fellow shareholders in Spain and Kenya.

■ Rimfire International, 22 South Audley St. London W1Y 6ES. Tel: 071-599-9233.

Computing/David Carter Baffled? DTI has an answer

"THIS accounts package does not work! It can't even calculate VAT on my invoices properly." The voice at the other end of the line was accusing: after all, only a few months ago I had recommended the package in question as a Best Buy in one of the Personal Computer magazines.

I asked the gentleman to send me a copy of his disks and some of the faulty invoices. The problem soon became clear. His business was wine retailing where prices are quoted inclusive of VAT. He wanted to invoice a VAT-inclusive gross price such as £3.99 and for the computer to automatically calculate net price and VAT. Unfortunately, accounts packages normally expect you to enter the VAT-exclusive net price and to calculate VAT and gross. Each method of calculation yields slightly different VAT amounts. He needed both, since some of his sales invoices were for wine in bond which is quoted at VAT-exclusive prices.

Now whether or not this £299 budget package should have offered both methods for calculating VAT is arguable. The important point is that the wine merchant, when he started looking for an accounts package, had no idea that his invoicing requirements were unusual and might present a problem. He thought he just had to go out and buy an accounts package which did invoicing.

When you buy a computer vague objectives such as "I want it to do my invoicing" or "I want it to handle stock control" are not good enough, for at the nuts and bolts level at which computers operate there are endless permutations of invoicing or stock control and you have to know precisely which versions you need. Without a doubt, the key to buying a computer system that works is first to define in detail the tasks the computer will be required to carry out. Before looking at solutions, first spend some time defining the problem. This can save you hours of frustration and wasted time later on.

The more effort you put into setting down a detailed specification before you start looking at computers, the easier your search will be. The prospective buyer who starts armed with even a thorough "spec" will have a clear view of what he is looking for, and this helps him keep his eye on the ball as he wades through all the jargon and technical irrelevances with which the computer vendors will inevitably assail him.

In the computer industry this document is referred to as a "specification of requirements" or "system specification". Writing one is a skilled task normally performed by a "systems analyst". It requires

experience both of business in order to understand how the current manual system works and also of computers (how a computer system could replace it). A systems analyst is the key person in any computer purchase since he or she is the only person involved who has an understanding of both areas. Such individuals are rare, and competent systems analysts tend to work for big companies or the more expensive dealers.

For the smaller company that wants to computerise, perhaps the best route is to have its specification of requirements written by a consultant under the DTI Enterprise Scheme.

The Enterprise Scheme applies to individuals, companies or partnerships in manufacturing or services employing fewer than 500 people. The majority of DTI projects are done for businesses with 20 employees or less. Under the Financial and Information Systems Initiative, you can

The key to buying a computer is to define the tasks it will perform

employ a consultant to define your specification for you. The DTI will pay half, or in some cases two-thirds, of the cost. Minimum time for the project is five working days, maximum 15 days.

As a consultant, I invariably get my customers to apply for an FMSI subsidy under the Enterprise scheme. The FMSI initiative is an important scheme which ought to be more widely publicised. The client is guaranteed a reasonable level of competence: all consultants are screened before they are allowed to go on the DTI register.

One disadvantage is that it concerns itself entirely with producing the system specification which, while essential, is simply a means to achieving an end, that is a working computer system. Make it clear to your consultant at the outset that you do not just want a big report for your money; you expect the computer to be installed and working. For this a further five days subsidy is available for "implementation guidance".

The first step is to telephone your regional DTI branch for the brochure and an application form. But hurry! The DTI Enterprise scheme is scheduled to end in 1993.

■ DTI Greater London, call 071-627-7800. For other regions phone the DTI's free Innovation Enquiry line on 0800-44-2001.

■ David Carter is a consultant in small business computer systems, tel: 0727-912-447.

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A state on the take

Continued from page 1

Milan operation of the party cost £2.5bn a year and they gave up £100m a year from Rome - Rome did not think we used to win the lottery every month to cover the rest!

Magistrates have paid particular attention to those running party finances. Vincenzo Balzamo, the administrative secretary of the Socialist party, died of a heart attack last November while being investigated for corruption. His opposite number in the Christian Democrats, Severino Citaristi, has been served with a record ten warrants notifying him that he is under investigation for illegal party finance.

It is far from clear whether private business has been a victim or willing accomplice although companies have been touched by the inquiry include Fiat, Pesenti and Ferruzzi.

"The entrepreneurs are desperately trying to demonstrate they were obliged to pay by the politicians," Mongini claims. In Milan, he says, "the parties had an interest in getting the money and the entrepreneurs had an interest in giving it to them. Like couples making love, it was usually by mutual consent." The one charge Mongini denies is that of extortion. Companies paid willingly for the privilege of rigging the bidding process: excluding rival bidders and fixing the price.

This relationship between business and government has been encouraged by the practice in Italy of having private tenders. On average, throughout Italy, two thirds of contracts have been by private tender or have not been subject to parliamentary scrutiny. In this way contracts are easily rigged or rewritten in mid-per-

formance. The lack of transparency and the obligatory inclusion of "commissions" explains why foreign contractors have, on the whole, avoided Italy and why contracts have been costly by European standards.

Mongini says that, of the money he raised, £130m a year went to finance his faction of Milan's Christian Democrats. Party and the rest to himself. He denies enriching himself, but calculates that at least one third of money collected in the "system" was for personal enrichment - "but to prove this you will have look at Swiss bank accounts."

He says the Milan magistrates have been clever, using every weapon at their disposal. They made him feel that they were closing in but kept him guessing for two months. "When I was eventually arrested in June it was like an act of liberation. I understand people have gone to extremes awaiting arrest."

Seven suspects have committed suicide in the past nine months and an eighth fifth was saved by chance this month after having taken an overdose in a parked car.

At first Mongini was convinced that, as a lawyer, he could avoid incriminating himself under investigation. He resisted for 14 days. Then the ordeal of prison, combined with the realisation that the magistrates had an accurate picture of how bribes were collected, convinced him to co-operate.

The Milan magistrates have exploited their right to keep suspects in detention for three months, and have made a point of arresting those used to the good life either late at night or

early in the morning. Release from prison has been on a direct reward basis: once suspects confess. By early this month, 105 of those arrested had confessed.

Mongini observes wryly: "The reception centre at San Vittorino prison has become like the foyer at La Scala - where you see anyone and everyone." But members of parliament have yet to grace its cells. Under Italian law, magistrates must first ask parliament to waive the blanket immunity extended to deputies and senators. This process can take up to five months and the waiver is by no means guaranteed, especially now that parliament feels it is being challenged by the magistrature.

So many politicians are already compromised in the scandal that parliament is in a weak position to take the initiative to prevent the investigations paralysing the Italian state and its institutions. One Milan magistrate, Gherardo Colombo has suggested a pardon on the condition that those who have taken or given contracts, commissions confess and repay the monies.

Giuliano Amato, the Socialist prime minister, has suggested it is wrong to focus on those under investigation as the sole culprits. Italian society, he says, has been an accomplice in tolerating corruption.

Mongini, who hopes he can avoid a full prison sentence, backs such views and adds: "The public will not accept a simple pardon; and the best thing is for all those in power during this period to recognise that they are no longer acceptable to the Italian people. It is the end of a political class. They must leave the scene - and that includes me."

FASHION

Navy and white: a classic combination cruises on

*Avril Groom welcomes fashion's equivalent
of the first cuckoo of spring*

IN THE shifting world of fashion it is comforting to find a rare constant. As surely as spring follows winter, once the doors have closed on the greyed and fingered remnants of the January sales the store-ralls turn blue, intermixed with white and cream.

There are fashion followers who await the first delivery of navy and white as a sign of spring, much as keen bird-watchers record the first cuckoo. Once the clothes arrive, they are inevitably labelled "the nautical look" so it is interesting that, in a year when the mood of fashion is totally removed from the crisp uniformity of that epithet, this colour combination is as strong as ever.

It is an easy look to market in the uncertain weather of early spring, translating as well into the classic shapes and lightweight wools that sell at that time as into the flimsy fabrics of high summer. But the appeal of it goes much deeper than a brass-buttoned blazer. Navy and white is fresh and optimistic after the heavy, dark shades of winter, and embodies the idea of travel in its widest form. The nautical connotation suggests journeying for pleasure to, or on, the sea, which even for the affluent used to be a summer activity rather than an all-year option.

It also appeals to the human penchant for nostalgia for it goes back a long way, to the original hoomered bathing-dress and the sailor-suits and dresses which children wore early this century and which design leader Gianni Versace has now exploited in the striped, sailor-collared shapes of his couture collection for this summer.

By the 1920s travel had become a fashionable end in

itself for the monied and leisured, leading to a new genre of clothing, labelled first in America and later in Europe as cruisewear. It is to the heyday of staterooms and dinner at the captain's table that this year's navy and white harks back, to the time when the rich shuttled across the Atlantic with complete suites of Louis Vuitton flat-topped trunks in the hold of a liner.

Cruises now have a different image, requiring rather briefer and more colourful clothing. But as the novelist Robert Louis Stevenson wrote more than 100 years ago: "Young and old, we are all on our last

*For this spring's
styles, softness
and lightness are
the keywords*

cruise," and recreating some of that lost elegance in the contemporary wardrobe is seductively aspirational - even if we are only cruising to the office, a dinner date or, at best, a villa in Tuscany by charter flight with one holdall.

In the retro mish-mash of this spring's styles, inspired by the 1930s and 1940s as filtered by the 1970s, softness and lightness are the keywords. The graceful, fluted lines created by the lightest fabrics, whether bias- or generously-cut, are the gentlest and most flattering way to wear what may seem, after years of power tailoring, an alien way of dressing. Certainly it means giving up to some extent the comfort of more solid fabrics - so this could well be the spring of the thermal vest.

Keep in the mind the elegance of old-style cruisewear and the look will fall into

place, from sporty casuals to dinner dress. There is no need to abandon a tailored navy jacket, especially if it has pretensions to the curvy, swash-buckling style favoured by designers Rifat Ozbek and Christian Lacroix, but swap metal buttons for plain covered ones and make sure anything you wear with it is meltingly fluid. A softly ruffled chiffon shirt and layered chiffon skirt is the combination seen most often on the catwalks.

In the same vein, well-cut classic cream or white trousers still look right but are no longer worn with a blazer - try a softly-wrapped jacket or loose silk shirt instead. If you are buying new trousers, choose a loose, soft shape, widening towards the ankle if you dare, in a fluid fabric - crepe is the season's big hit. The same fluidity applies to dresses, which need a swing in their long skirts, or at least a split to give a similar but sexier effect.

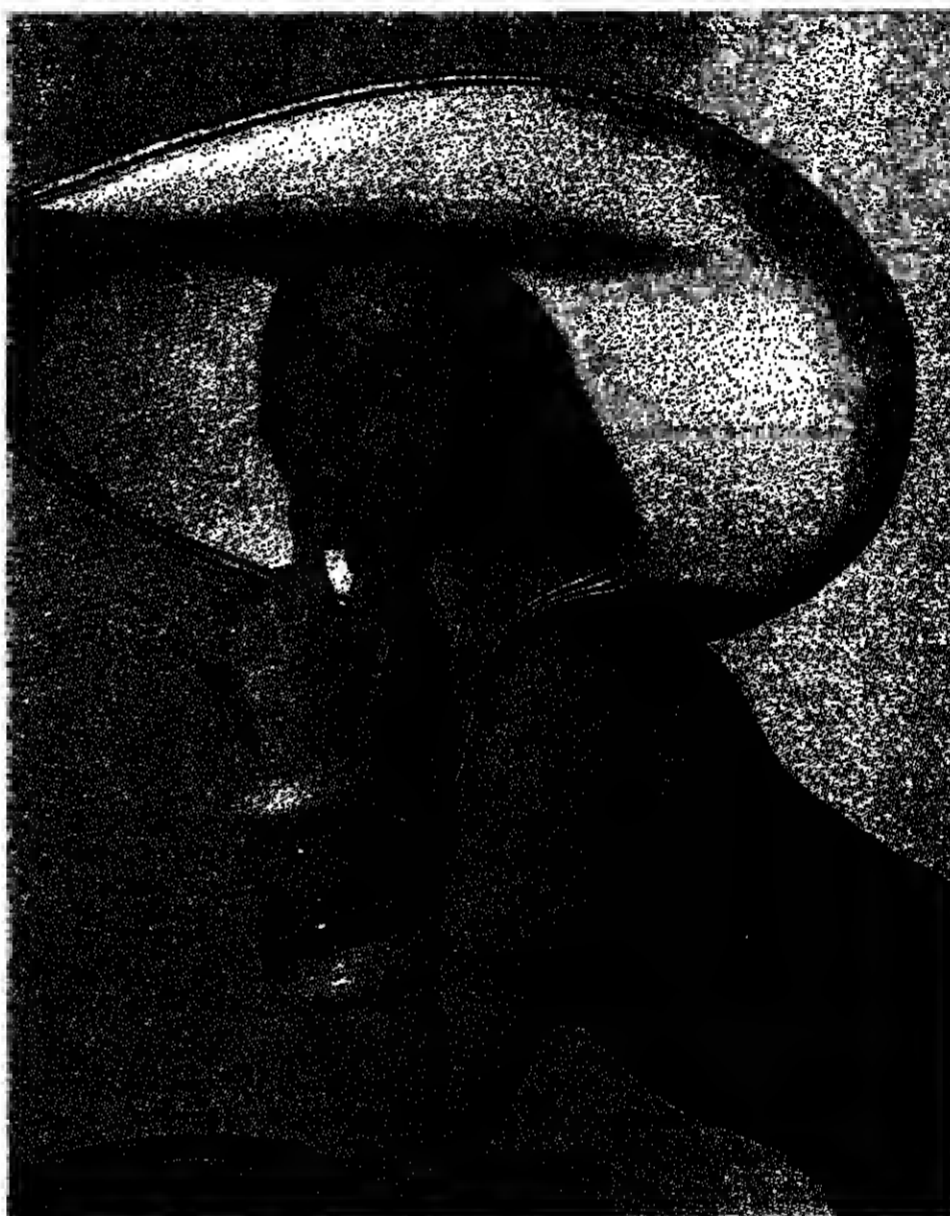
Accessories are important - go for large, soft-brimmed, face-framing hats rather than nautical caps, the new, rounded-looking, platform-soled shoes, and use jewellery sparingly in the form of long, simple head ropes, plain but chunky bangles or Art Deco-inspired earrings.

But the final strength of this colour scheme is its universality. Some find it works better with white, others with cream, but there is hardly anyone it does not suit at all.

If you go for colour analysis you will learn that there are many shades of navy - picked out for you will be "your" navy, the one that suits you best. Finding that exact shade in the shops will be another matter - but rest assured that some store, somewhere, has the navy wherewithal to give you the elegance of cruising times past.

Right: Acetate/viscose crêpe dress by Jasper Cooran, £370 from Harvey Nichols, Fenwick, Selfridges, Oxford Street, London W1 and Matches of Wimbledon. Hat, £250 from Herbert Johnson. Wooden bangles, from £9.95 at Liberty.

Make-up by Charlie Duffy. Pictures by John Swannell.



Breaking the secret dress code

*Brenda Polan on the foibles and
follies of fashion etiquette*

THE STORY is claimed by most of London's great hotels but the maître d' of the Dorchester's grill room swears he was there. It was a busy evening late in the 1960s and a glamorous couple approached the restaurant to claim their table. He was dressed impeccably in a dark suit with well-pressed trousers. So was she. Unfortunately, the prevailing dress code stipulated that trousers were not acceptable attire for women.

Politely, the maître d' pointed this out. She argued. After all, her Yves Saint Laurent tunic-topped trouser suit was then the hottest thing in fashion. He insisted. Her escort began to look anxious, so the lady turned her back, unzipped the ones she had slipped off and turned back, now apparently wearing a mini dress. The maître d' gulped, then grinned and showed them to their table. He even checked her trousers into the cloakroom.

A skirt, it seems, is a skirt even if it merely skims the welt of your thighs. Or is it? At around the same time, model Jean Shrimpton discovered that the stewards at Flemington racecourse in Melbourne did not think so. Even today, very short skirts are barred at the Henley rowing regatta. And there are still some places where women cannot wear trousers, including the royal enclosure during even the chilliest, windiest Ascot week.

Dress codes often appear irrational, the tool of an old guard fighting a rearguard action against the forces of progress, modernity, good sense and egalitarianism. The new, American-owned Regent Hotel on Marylebone Road has launched itself with a wordy, full-page advertisement which makes just that assumption. "Several hotels in London," it declares, under a photograph of a tail-coated concierge, "are about a hundred years old. Trouble is, their staff behave roughly the same age."

It announces that, at the Regent, you can wear what you like. The London Evening Standard took up the challenge with a semi-luminous turquoise, black and orange shell suit. It was met with faultless charm and total acceptance.

The reporter felt like an eye-sore, though. And that, according to Lucinda Buxton, press officer for London's famous Savoy hotel - an establishment in the forefront of the "proud to be stuffy" movement - is partly what dress codes are all about. "If you know you are dressed right, it gives you confidence," she says. "It enables you to respond to the glamour of your surroundings - surroundings which a large number of people have worked very hard to make perfect."

There are, of course, two sides to that coin. Those who know the rules and adhere to them feel secure. Those who do not are excluded, sometimes quite peremptorily.

All rules about clothing are designed to be exclusive. Once, when the social pecking order was of greater importance than it is now, they were enshrined in the law of the land. The sumptuary laws made certain that no ambitious member of the merchant or professional classes could deck themselves out in the fabrics, furs and coronets reserved for the aristocracy, so deceiving the unwary as to their station in life.

Formal academic dress still contains remnants of this status system but most dress codes are informal, implicit and subtle - and enforced just as rigorously. Watch any group of teenagers milling around on the pavement outside a popular club and you will see the pariah space isolating the ones who do not look right. Behold the doorkeeper's eyes as they slide over the non-conforming outsiders as if the space they occupy was empty.

The decision on what is appropriate wear tends to be a consensus one formed by the particular group. Those who flout that consensus are, quite rightly, perceived as subversive and escorted to the exit (or, in the commonest case, to the gentlemen's cloakroom where they will be offered a choice of polyester ties and old-fashioned dachshund jackets).

"Women nowadays," says Buxton, "can get away with almost anything. Except the strictest rules apply to men." In most of London's "stuffy" hotels - the Savoy, Claridges, the Dorchester or the Ritz - a tie is required only in the evening and in the restaurant, but a jacket is a must at all times except in the upper corridors.

And yet, it can often be a matter of discretion, as all the arbiters of dress codes concede eventually. If one of those utterly chic Milanese men approached the restaurant wearing an Armani jacket, well-pressed jeans, Gucci shoes and a tie-less soft white silk shirt buttoned to the neck, no one would dream of thrusting a soup-stained polyester tie at him. Dress codes do give way before stylishness, fashion, wit and confidence.

In 1965, the Savoy turned trouser-clad pop guru Cathy McGowan away hungry. But, in 1967, it reversed its policy and allowed Lady Whitmore, the Swedish-born wife of racing driver Sir John Whitmore, to eat her dinner unharrassed and betrousered. After her, the deluge.

Wit and style does not always work, though. One of the Savoy grill's dearest memories is of the time the mime artist, Marcel Marceau, arrived on the threshold without a tie. On being told he could go no further, he mimed tying a Windsor knot in front of an imaginary mirror. The seated diners applauded rapturously. Marceau was, nevertheless, escorted to the gentlemen's cloakroom to choose his tie.

Top right: Acetate/viscose crêpe jacket (part of suit), £850 from Georges Rech, Sloane Street, London SW1. Harrods, Knightsbridge, London SW1. Rayon/Lycra body by Rifat Ozbek, £175 from Harvey Nichols, Joseph, Fulham Road, London SW3, Room 7 of Leeds and Sister of Newcastle. Silk chiffon skirt by Workers for Freedom, £139 from Liberty. Chiffon and straw hat by Peter Bettley, £99 from Simpson, Piccadilly, London W1. Suede sandals, £79.99 from Russell and Bromley.

Below left: Acetate/rayon double crêpe dress, £185 from Whistles branches. Straw hat, £105 from Herbert Johnson, New Bond Street, London W1. Pearls from a selection at Liberty. Clogs, £115 and bag, £570, both from Gucci, Old Bond Street, London W1 and Sloane Street, London SW1. Vintage trunk from Louis Vuitton. Teak steamer chair, £350 from Past Times branches or 0993-779444 for brochure. Hair by Joel O'Sullivan for Terence Renati, Kings Road, SW3.

Right: Acetate/rayon crêpe dress by Jasper Cooran, £370 from Harvey Nichols, Fenwick, Selfridges, Oxford Street, London W1 and Matches of Wimbledon. Hat, £250 from Herbert Johnson. Wooden bangles, from £9.95 at Liberty.

Make-up by Charlie Duffy. Pictures by John Swannell.



Left: Acetate/viscose crêpe jacket, £149, by Rivero from Browns, South Molton Street, London W1, Harvey Nichols, Knightsbridge, London SW1 (081-610-6994 for further stockists). Crêpe trousers, £46.99 from Next branches. Rayon/viscose knit top by Sportmax, £115 from Fenwick, New Bond Street, London W1. Silk scarf, £99 from Aquascutum, Regent Street, London W1. Shoes, £89.50 from Russell and Bromley.

Above: Wool crêpe jacket, £325 from Aquascutum. Wool trousers, £135 from Burberry, Haymarket, London W1, Regent Street, London W1, Edinburgh, Glasgow and Aberdeen. Deck shoes by Superga, £34.50 from Russell and Bromley. Sunglasses by Byblos, £88, 081-830-0065 for stockists. Earrings, £58 from Cobra and Bellamy, Sloane Street, London SW1 and Liberty, Regent Street, London W1. Bag, £395 from Louis Vuitton, New Bond Street, London W1 and Sloane Street, London SW1.

HOW TO SPEND IT

Lucia van der Post gets to grips with the latest developments in fitness fads and bids a fond farewell to lycra...

For healthy bodies — and healthier minds

ONE OF the curious things about the health and beauty business is that most people — four out of five, according to Allied Dunbar's annual report on the physical state of the nation — believe that some form of exercise is good for them, but only half of them do anything about it. In other words, most take the classic advice when overcome with the urge to deal with flab — they sit down until they feel better. But slowly, more of us are realising that fitness is not only good for us, it can also be fun. It can be about enjoying yourself, meeting friends and colleagues in warm, congenial clubs, and about feeling better, too.

As David Giampaolo, who founded the Espree clubs and now distributes fitness equipment, puts it: "These days the emphasis is much more on health than fitness. It's about exercising in a way that is physically, psychologically AND spiritually rewarding. The idea nowadays is to be energised, not exhausted."

The days of the Jane Fonda mantra, No Pain, No Gain, are gone. High-impact aerobics, exercising till you drop, are out of vogue. In have come low-impact aerobics, stretch and step, yoga, flotation, inline skating, Tai Chi, dance — the key is to find something you actually enjoy — then there is a chance that you might stick with it.

Fitness is also big business. The health, youth and fitness business is predicted to be one of the five fastest growing commercial sectors in the next decade — but as in all successful businesses, it needs sharp footwork to keep ahead of the game.

With the emphasis on fun and (sign of the times) stress relief the fashionable way to tone limbs and tone up cardiovascular function is with such new age concepts as Step Training, Inline Skating, The Slide Trainer, water aerobics and personal trainers. Crucial, too, are the ancillary services — aromatherapy, reflexology, massage, the holistic approach that all the best, most

advanced clubs now offer.

David Giampaolo was probably the first, with Espree, to see that most 1980s-style British clubs lacked allure. They were spartan and functional: people came, worked out and went home. With Espree he made sure that a club was a nice place to be — comfortable, inviting, warm, with a restaurant serving decent food.

Nowadays many clubs are selling the new age message: that you need not suffer to be beautiful and well. The Riverside Club, some of the David Lloyd ones, the medium-market Metropolitan Clubs and lots of small health clubs up and down the UK are all now more inviting to visit than the spartan clubs of yesteryear.

The new Harbour Club at Watermead Lane, Loddon SW6 (tel: 071-371-7700) is not due to open until March 22 but so far is making all the right noises. It describes itself as a multi-sports club with 14 tennis courts (10 indoors), a 4,000 sq ft gymnasium, a 25 metre pool, a crèche, good parking and every sort of class from stretch and step, yoga and dance to flotation tank and a proper restaurant with a serious chef (ex-Halkyoo Hotel).

There is a resaleable membership fee of £1,695 and the monthly full membership charge is £58. This lets you use all the facilities free except the indoor tennis courts at peak time for which there is a £10 an hour charge. There will also be off-peak membership of £55 per month and a joining fee of £430 for those who only use the club Monday to Friday from 6.30am to 6pm. Some 900 people have already signed up.

For those for whom those kind of sums are out of the question it is worth mentioning Jamie Addicoat's Fatbusters — wonderful name — classes. When I last looked at the fitness business Addicoat's Fatbusters was running some of the cheapest classes around, at Covent Garden's Jubilee Hall for £2.50 a class. Today prices have risen to just 24 a time.

For that reasonable sum you get Jamie himself, shouting, strutting, urging you on to that (attainable) goal — the lean and trim body. Hours are for serious workaholics — 7.30 am on Monday, Tuesday and Thursdays, 7.15 pm on Tuesdays and 1 pm on Sundays. Classes are held at the Jubilee Hall, 30, The Piazza, Covent Garden, London WC2. Tel: 071-336-4007 for details.

The ultimate luxury (or necessity, depending on your point of view), is the personal trainer. Puritanical Britons tend to feel this is the decadent way to fitness but in New York, where personal trainers are nearly as ubiquitous as personal analysts, they are seen as just another sensible use of hard-pressed time. Trainers come in every discipline and though £35 an hour (the average rate at which they come in London) may sound a lot, if you get two or three friends to join it is good value.

My personal preference at the moment is for yoga: muscle toning, increased suppleness and flexibility, not to mention a sense of renewed energy, are just some of the benefits that yoga addicts notice. As evidence of my devotion to my readers I proffer the name of my own much-valued yoga teacher, Lisbeth Russell, tel: 071-431-2658, for those in the London area who think yoga may be the thing for them. Otherwise the British Wheel of Yoga Central Office (tel: 0529-306851) has a list of trained teachers in the UK.

For other personal trainers — whether in low-impact aerobics, stretch and step, body-sculpting — ring Melanie Reigher at Lifeworks (tel: 081-520-7344) and she will put you in touch with teachers and classes in your area.

If you like keeping your physical inadequacies to yourself and just want to work out

in privacy at home there is now a vast range of in-home equipment and supporting videos. The Step is currently much in vogue (see caption top right) but the bot coming thing (according to David Giampaolo) is The Slide Trainer, which should be in most sports shops in mid-March for £79.

Whereas most exercises work the front and back of the legs the Slide Trainer promises (ah, delicious prospect) to stretch and tone the abductors (the outside thigh muscles) and adductors (the inner ones). It also tones the medial and lateral muscles on the inside and outside of the knee. So there you have it — thinner thighs, stronger knees could be yours.

One last thought. The inescapable fact is that the toned body, the lithe shape, the inner tranquillity does not come from the odd hour in the gym or the couple of hours on the tennis court. It depends upon a whole way of life. It reflects what you eat, how you move, how you feel and how you exercise. Nothing is ever quite as simple as it seems...



Left, The Step, sweeping the US and going great guns in the UK, is just one of the new-age devices for pleasurable exercise. In the two and a half years since it was launched some 1.4m have been sold.

While most of those have gone to clubs and other institutions there are now two versions suitable for those who have neither the time, the means nor the taste for communal exercising. The domestic versions mean that even the shyest and most inhibited can deal with their flab and their bulges in the privacy of their own homes, while those of us who are chronically busy and short of time can tone up without having to travel anywhere.

There are two versions, the Step XT, which is 30in long and has three height adjustments — 6, 8 and 10in — and costs £29.95. It is primarily used for cross-training — that is swimmers who also run or tennis players who want to get fitter but is an enjoyable way for the rest of us to improve our cardiovascular fitness. The Step 2 is the more usual domestic version: it is 27in long with 4, 6 and 8in height adjustments. It costs £44.95. Both are available from some 900 stores nationwide — in particular the sports departments of Harrods, Lillywhites and John Lewis Stores. They come with an

accompanying video which it is absolutely essential to follow, at least to begin with. How you stand, the body-line, how you move: it all matters and the video nannies the novice along in a most encouraging way. It aims to leave you bursting with renewed energy, not exhausted from effort. As the handsome blond instructor puts it: "You should be able to talk at all times and a good test is whether you can sing along with the music." All nice, jolly, enjoyable stuff.

Below is the new, laid-back, easy-does-it way to dress for exercising — not a shiny piece of Spandex in tight, colours are muted and low-key and the clothes could as easily be worn for jogging, walking, or any other sport that does not have too serious a dress code. She is wearing a grey mori navy fleece jacket, £49.95 worn over comfortable real blue fleece shorts, £21.99 and a navy T-shirt, £9.99. Both by Champion Sport and sold through Champion Sports shops. Her trainers are by Reebok, £39.99. He is wearing a burgundy/navy/grey tracksuit top, £44.99 with navy fleece tracksuit trousers by Champion Sports. The navy fleece tracksuit trousers are by Adidas, £29.99. The Nike trainers are £39.99, the converse tube socks, £5.99 for three, all from Champion Sport. For your nearest stockist ring 071-636-8640.



40 per cent of it is worn by women. These are clothes that you could wear to the gym, on the street, or relaxing at home."

At Cobra, (mail order from 75 Great Eastern Street, London EC2, 071-613-1776) they report, too, that it is "wear what you want time." People are training in army trousers. Baggy light cotton training pants and baggy tops with loose necklines are all the rage. The tops are worn over baggy vests, the sleeves and trousers are rolled up.

Training shoes, it seems, are being swapped for training boots. Big belts and crop tops are optional extras. Lots of customers, though, wear the baggy look OVER a tight lycra outfit — those who have sweated for the body beautiful and having got it are not about to keep it entirely covered up.

What all this means, of course, for the rest of us still hoping to get there, is that now that we can trundle around in nice bulge-concealing gear there is even less of an excuse for not taking those self-same bulges off to the gym...



Relax, life is getting looser

SO JUST what do you wear for all this new age exercise? Now that it is all meant to be fun not penance, clothes are following suit — they look less as if they are designed only for serious work-outs, and more like general casual-wear.

Hot news from the West Coast of the US (whence most such fashions come) is that body-hugging, muscle-revealing, neon-bright scraps of elasticated fabrics are on the way

out. It's bye-bye to the tight, show-off, constricting gear that reveals every flabby inch and hello to loose, comfortable, relaxed, shorts or sweat pants.

Bye-bye, too, (and not a minute too soon as far as I am concerned) to the eyeball-searing colours and hello to nice, soft, understated grey, navy and black and white. All the up-to-the-minute sports chains such as Cobra, Champion, Sports Locker and the shops at the smartest

clubs are selling this new relaxed gear.

If you want a look that is wonderfully comfortable and yet has proper gym-cred then, according to Graham Haines of Sports Locker (17 Floral Street, London WC2 and 53 Pembroke Road, London W11), what you should go for, working from the top down, is a reverse-weave Champion sweat-shirt (£34.99, in lots of colours). Underneath that you should don

a loose Russell Athletic pocket T-shirt, then some cotton-lycra knee-length pants (£34.99, smartest in strongly-stripped black and grey), and on your feet chunky cotton socks by E G Smith (£10.99) which should be worn slouch-style — in other words, rumpled round the ankles.

These are clothes "with no gender barrier," according to Graham Haines. "Some 80 per cent of our merchandise is made for men but

Cookery/Philippa Davenport

Squeeze yourself a taste of Sicily

I SHOULD be in Sicily this week attending a cookery course, sampling local wines, exploring the markets and rejoicing in a scented snowdrift of almond blossom. Alas, it was not to be, so I am comforting myself instead with the sunny richness of Sicilian oranges now flooding into British shops.

There is no shortage of them and prices are reasonable. Most pleasing of all, with their sticky, sweet, abockingly blood-stained juices, are the moros and taroccos. I squeeze half a dozen or so for our breakfast each day, a vibrant swig to zip us into action on grey English mornings, and I like to serve these glorious fruits at the end of rich meals for dessert.

For the quickest and most dramatic effect, simply cut each orange, peel and all, from top to bottom into eight wedges, remove the pips with the point of a knife and pile the crescent-moon slices on to a plate. Allow two oranges for

every three people. You might remember, as I do, oranges being served like this at half-time in inter-school games. In those days, we used to save the pieces of orange peel after we had sucked the juicy flesh from them. If you then carved the peel with a penknife and wore it like a boxer's gumshield, you revealed a gummy flash of orange false teeth when you smiled.

I am not suggesting you indulge in such childish pranks at the dinner table. But the simple refreshment can be given a sassy finishing touch by serving the wedges on a plate lined with fresh bay leaves, and sprinkling them with a smattering of lightly-crushed fennel seeds. The combination of fennel and orange is lovely, and fennel is well known for its digestive properties.

Another aromatic alternative is to intersperse the wedges with sprigs of rosemary. The blue flowers and silvery green



foliage make a splendid foil for the orange skin and ruby flesh of the fruit and, if the herb is bruised lightly, it will impart some of its fragrance to the citrus.

This simplest of all orange salads can be served on its own, or with little biscuits or sponge fingers also flavoured with fennel or rosemary. The fruit also can be used as an edible garnish for scoops of blood orange sorbet.

Sweet oranges are suited equally for savoury roles. The Sicilians are fond of combining

them with fish, and I rate them highly with small birds such as quail.

POT ROAST QUAIL WITH CARAMELISED ORANGES (Serves 4)

Pot-roasting quail in the juice of blood oranges keeps the little birds beautifully succulent. Extra fruit, grilled until slightly toffee, provides an irresistible garnish.

Ingredients: 8 plump over-ready quail; 5 thin-skinned blood oranges; juniper berries and bay leaves; 1 oz unsalted or clarified butter; a little olive oil.

Method: Marinate the quail for a few hours in the juice and zest of 3 oranges with 8 bruised juniper berries. Turn the birds occasionally.

Dry the quail, reserving the marinade which will have stained them a pale shade of beetroot. Skewer each one with a cocktail stick to tuck the legs neatly against the body — this is less fiddly than trussing. Choose a flame-proof casserole just large enough to take

the little birds in a single layer. Heat the butter in it and colour the quail lightly all over. Then, lay them breast down and pour on the marinade. Without waiting for the liquid to become hot, cover the casserole and pot-roast at 375-400F/190-200C (gas mark 5-6) for 35 minutes.

Turn the birds breast up and cook for 10-15 minutes more. Theo, serve straight away or turn the oven temperature right down: pot-roast quail can be "held" for up to half an hour without spoiling.

Dish up the little birds in a

nest of rice or other grain, or sit them on rounds of grilled or fried polenta. Offer their gummy (lightly seasoned and strained of spices and zest) in a sauceboat, and serve with caramelised oranges on the side.

To make these last, cut the remaining 2 oranges, peel and all, into 8 wedges each. Thread on to damp wooden skewers, spacing the wedges well apart and interleaving them with bay. Brush with olive oil and grill for about 10 minutes until the fruit is hot, the peel is slightly toffee and the bay leaves smell incense-sweet.

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PERSPECTIVES

Disaster threatens a natural wonder

Olga Speranskaya on the pollution of Lake Baikal

RUSSIA HAS paid a terrible price for the Soviet tradition of "storming nature" - the idea that air, water and abundant natural resources were there for man to assault violently without thought for the human and economic cost, or the ecological consequences. Starting with Stalin's decision to build the White Sea canal with slave labour in the 1920s, the communists showed an irresistible urge to throw millions of people and vast resources at projects that were nothing but propaganda.

These were designed to impress the Soviet people and the world with the regime's implacable will and its ability to accomplish monumental schemes and gravity-defying feats. For decades, huge dams were built which flooded rich agricultural land to produce electricity for non-existent factories or to irrigate, for example, the mono-culture of cotton in the central Asian republics, desiccating the Aral sea in the process.

Partly to repair this damage, the planners then proposed to create another ecological disaster by diverting the mighty Siberian rivers from their natural courses. Nature has them flowing northwards into the Arctic ocean, draining the Siberian swamps. Instead, they were to be channelled south for thousands of kilometres, raising water levels and leaching salt and minerals from soils as they went. Again, the aim was to irrigate central Asia.

Cost-benefit analyses along capitalist lines were unknown in such projects. Only as the power of the Communist party dwindled in the 1980s did it become possible to question seriously either the economic rationale, or the ecological consequences, of projects which had drained resources for decades and contributed to the grotesque deformations of the economic system.

The collapse of the Soviet Union, and the economy, put paid to the Siberian rivers scheme. But it came too late to prevent the outlay of billions of roubles on one of the world's most improbable railways: the Baikal-Amur-Mazailine (BAM).

This runs for more than 2,000 km (1,250 miles) through what was once a world of virgin forest, crystal rivers and forbidding mountains. The politburo decided to build the railway deep inside the permafrost

zone where metals snap like twigs, buildings sink, and motors have to be kept running 24 hours a day or they freeze up within minutes. Like so many Soviet schemes, the idea of driving a railway through some of the world's harshest and least inhabited terrain was dreamed up by Stalin, only to be abandoned hastily when the second world war began. It was resurrected by Stalin's spiritual heir, Leonid Brezhnev, in the 1970s when the idea of building a line through Siberia north of Lake Baikal reflected military concern at the vulnerability of the existing trans-Siberian railway at a time of tension with China.

The launch of the so-called "project of the century" was also accompanied by much loose talk of "unlocking the Siberian treasure chest" and opening up a vast area of Siberia to human habitation. Above all, its proponents argued,

Even the stars looked different 25m years ago when the lake began to fill

the railway would help to exploit the mineral wealth locked up in the mountain ranges through which the heroic tunnel drillers, bridge-builders and track-layers made their difficult and expensive way.

Twenty years later, the railway is still not operating fully and only one of the projected jobs, the Japanese-financed and equipped Neryungri hard coal mine, has been built. Some 13m tons a year now flows down a specially-constructed spur of the BAM to be hauled over mountains and steep gradients nearly 1,000 km (625 miles) from Neryungri to the Pacific coast, from where it is exported to Japan. It must be the most expensive coal in the world.

Building the railway - with its nine tunnels, 139 large bridges and viaducts, and 3,700 smaller bridges and culverts over and under fast-flowing rivers and steep ravines - also opened up a vast area for logging and other operations. But logging dislodged thin soils and pointed the rivers towards those which flow into Baikal. The lake is one of the world's wonders and the

fight to prevent it being spoiled is among the main concerns of the ecological movement in Russia.

Baikal is unique in several respects. It is the most ancient lake on earth. Whereas the average lake lives "only" 10,000 years, Baikal is 25m years old. Even the stars looked different when its waters began to fill a giant rift in the earth's surface which is still the heart of tectonic activity in the region. Because of shifts in the planet's crust, the lake gains two centimetres in width every year. Now, it extends 636 km (400 miles) from south to north, and is up to 80 km (50 miles) wide.

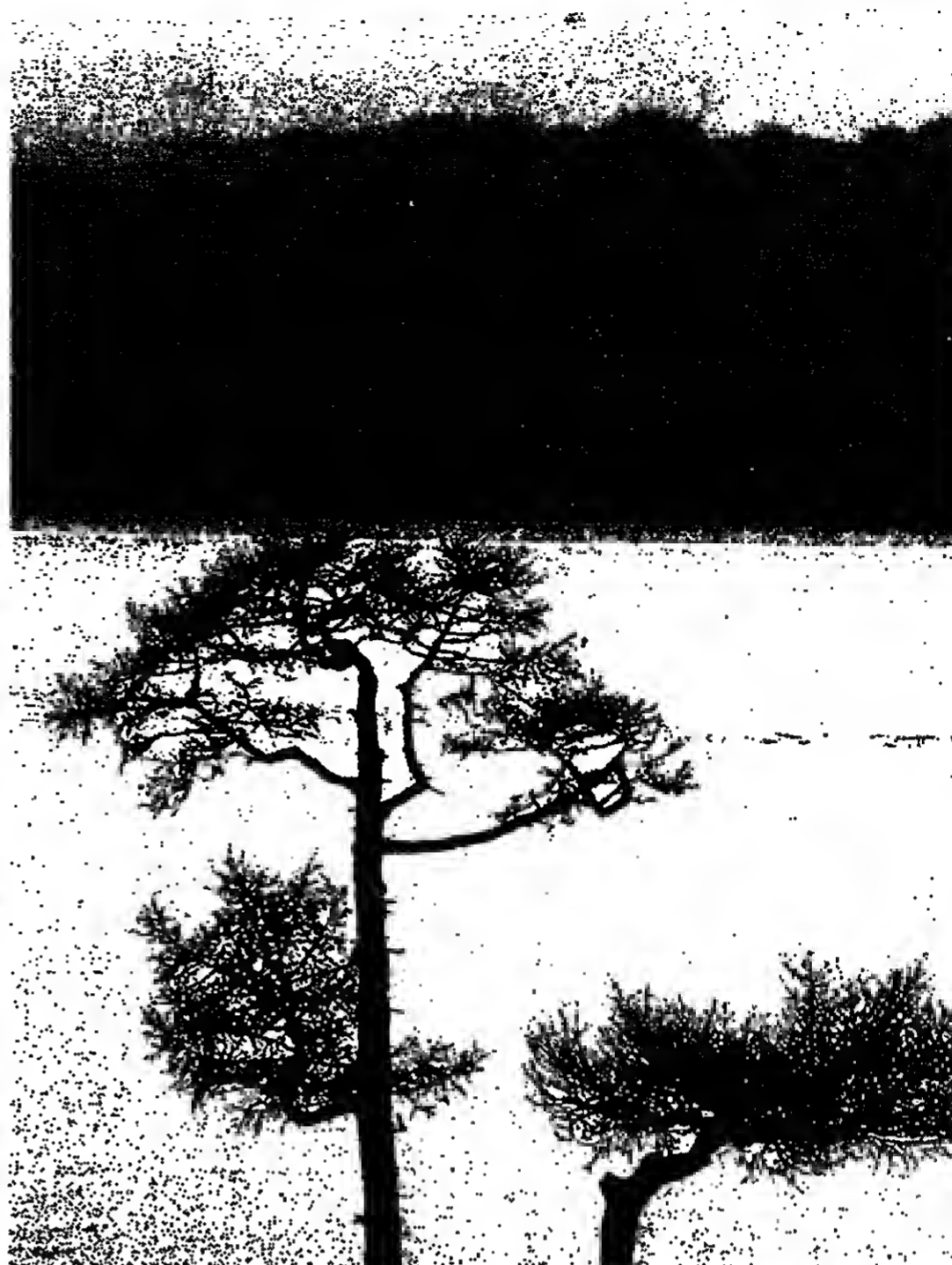
With a maximum depth of 1,742 metres (5,714 ft), Baikal is, above all, the deepest lake in the world. In surface area it is smaller than the US Great Lakes but, because of its depth, it has 20 per cent of the earth's surface fresh water.

As a closed ecological system, Baikal is famous for its wealth of plants and animals. So far, about 2,600 different species have been identified, of which 85 per cent are endemic to the lake. But Baikal today is not only a collection of natural superlatives - it is a tight tangle of problems and emotions.

The trans-Siberian railway, built at the beginning of the century, runs along its southern shore past Irkutsk, one of many heavily-polluted industrial cities in ecologically-vulnerable Siberia. The construction of the BAM, and the new town of Severobaykalsk more than 600 km to the north, threatened to repeat the degenerative processes in the lake's northern area.

Baikal's purity was first infringed on a significant scale by Moscow's decision to build the Baikalsk cellulose paper combine near the southern end in 1965. Its construction became a catalyst for the fledgling Green movement in Russia, and the debate over the plant developed into the first legal battle between the communist system and ordinary people.

Among the first to protest was academician Grigori Galzy, now the director of the Lake Baikal museum. But he remains pessimistic about the possibility of effective protective measures. "None of the many decrees and orders to protect the lake were fully implemented," he says. "Every day, the combine discharges up to 250,000 litres of supposedly clean waters into the



Lake Baikal... saving this unique waterway is among the main concerns of the ecological movement in Russia

lake. But these waters, even after the treatment they receive, need to be diluted at least 10,000 times to be considered clean.

Mikhail Grachev, director of the Limnological Institute in Irkutsk, adds: "The main value of Lake Baikal is its fresh, clean water and its value will only grow with time. We must elaborate a concept towards Lake Baikal and strictly follow it. The lake can be used as a fishery resource and insured as beautiful place for tourism and rest. But,

above all, it should be seen and treated as the planet's well, with crystal-clean waters. We have no right to take any risk and we must preserve it."

Baikal has proved to have a unique and highly-effective ability to clean itself, something that makes it different from other sources of fresh waters on earth. If its eco-system is not overloaded, this process will continue. But building new towns with inadequate sewerage and drainage, and

the effect of de-forestation along the banks of the rivers feeding into it, have increased pressure on its self-purification capacity.

One indicator of the pollution is that Baikal's best-known fish, the omul, now begins to spawn at around seven or eight years when it weighs around 180-200 grammes. Before the combine was built, the fish began to spawn at three to four years at a weight of 500 grammes. The Baikalsk combine is not the only source of pollution, though.

The Selenge river, the main tributary of Baikal, rises in Mongolia and gathers wastes along its way to the lake. Last year alone, industry in the Ulan-Ude region to the east of the lake dumped 39,000 tons of pollutants into the river.

Sewage treatment in settlements in this area is either too little or non-existent. Only 31 new water-treatment units, out of 83 planned, have been built and shortage of money means many lack crucial engineering work. Meanwhile, heavy industry along the Angara river, which flows out of the lake, and scores of antiquated thermal power stations burning bad-quality coal add their sulphur and nitrogen oxides to the air pollution.

To supply industry with electricity, the Soviet authorities also built power stations on the Angara. This had unpredictable ecological effects on the lake. Dr Olga Kozhova, director of the biology institute at Irkutsk university, explains: "For millions of years, dozens of species lived in shallow waters and evolved in accord with natural changes in the lake's water level."

"Construction of the Irkutsk hydro-electric power station on the Angara river in 1959 changed the situation dramatically. It raised the water level by a metre and water levels are now regulated artificially, depending on the needs of industry. As a result, inshore fishes such as the yellow-fin Baikal sculpin - a kind of miller's thumb fish - have lost their spawning grounds. Their numbers have dropped sharply."

Faced with growing popular protests, the Soviet government decided in 1987 to convert the Baikalsk combine into a furniture factory by 1993. That will help. But Grachev believes the best way to exploit Baikal is an ecologically acceptable way is to extract, bottle and sell its contents as premium mineral water. The Limnological Institute is trying to raise money to build a plant to produce 20m bottles a year, plus ice cubes. "It would cost about \$5-10m," he says. "The main problem is plastic bottle production - to ensure they are chemically neutral and safe."

Grachev's plan is one thing. But the real ambition of the Russian Greens is to remove all other industrial plants from around the lake. This, they say, would make Baikal the symbol of the nation's struggle to repair the damage caused by seven decades of profligacy.

Dr Olga Speranskaya, a Moscow ecologist, was the winner of the 1992 David Thomas Prize set up in memory of David Thomas, a Financial Times journalist killed on assignment in Kuwait in 1991. The article is part of her research into Lake Baikal, undertaken with the prize money.

FOOD AND DRINK

At last, sherry really is

A SERIOUS anomaly in the UK wine world is now being removed. So-called British "sherry", made from imported grape concentrate, has had a diminishing tax advantage over the real thing: sherry made from fresh grapes in the Jerez district of Spain. By the end of 1993, this preference will have been wiped out. It arose because British sherry was allowed to pay the same tax as table wine, now 95p a bottle. But most real sherry pays £1.65 - and, until this year, £1.88 if between 18° and 22° in alcoholic strength.

More important than the tax, however, is the ruling that, from 1996, the word "sherry" cannot be used in the European Community for wines that have been labelled as British, Irish, Australian or South African sherry. The Spaniards should have won this battle long ago but the British sherry lobby fought to retain the word on its labels.

Moreover, no longer do fortified wines - sherry, port and madeira - have to pay a higher duty of £2 a case if between 8° and 22°. There is now only one rate, which means an initial 5p a bottle off the low-strength wines and an encouraging 30p on the stronger wines, plus VAT. By the beginning of 1996, the duty on low-strength sherries will have fallen by £3.78 a case and by £7.43 on those of high strength - subject, of course, to the actions of the chancellor in the intervening budgets.

These reforms provide, at the right time of year, an incentive to sample the warming old high-strength sherries from Jerez. The amontillados, olorosos and palo cortados from old soleras started many years ago and, unblended with the sweet pedro ximenez (PX) wines, have a concentrated aroma, deep flavour and dry finish that make them delicious aperitifs.



oned finos, but the genuine article must be at least eight years old before it is transformed naturally. Lighter than olorosos, they also have a long taste in the mouth. Sainsbury has an attractive amontillado that is claimed to have an average age of 35 years (£3.45 a half). A very reputable one is Valdespino's Tio Diego (Wine Society, Stevenage, Hertfordshire, £7.90). Outstanding, however, is Gonzalez Byass's Amontillado del Duque Viejo (Peatling, Bury St Edmunds, Suffolk, £13.49), which is wonderfully rich and concentrated with a bone-dry finish.

Amontillado. Cheap amontillados are no more than sweet-

(£2.68 in most supermarkets) being the best known - it can, in fact, provide the most satisfying, concentrated sherry with a dry finish at a very reasonable price. Safeways has Lustau's excellent, full-bodied dry old oloroso (£3.29 a half-bottle). The Wine Society lists Valdespino's very concentrated Viejo Oloroso (£7.15). Lay & Wheeler of Colchester, Essex, has Oloroso Especial (£7.56) from the reputable firm of Hidalgo.

Wine Cellars, 155-155 Wandsworth High Street, London, includes Valdespino's Don Gonzalo Dry Oloroso (£9.69). Philip Byers of Colchill, Ayr, has a distinctive Lustau dry

oloroso, Viejo de Jerez (£10.86). Palo Cortado. Between an amontillado and an oloroso in style, this is said to be a one-in-3,000 cask rarity, so any offered cheaply should be treated warily. It has a crisp taste than oloroso. Harvey's has an authentic 1799 Palo Cortado for £9.50 (Wine Society £9.50), while Wine Cellars has Valdespino's Del Corral for £9.89. Those looking for something outstanding might try the PP Solera, founded in 1932, from the London department store, Selfridges (£20.99).

Edmund Penning-Rowsell

Try fino to wash down those tapas

Giles MacDonogh samples Andalusian cuisine

THE TAPAS of Andalusia can be delightfully simple, much more so than those prepared in such more prestigious gastronomic regions of Spain as the Basque country or Catalonia. In the very fine Egad's Oriza restaurant in Seville (San Fernando 61, tel. 422 72 54), I had caper pickled on their thick stems with thyme and garlic and the fattest green olives I had ever seen.

The style across the road at the ravishing Alfonso XIII Hotel (San Fernando 2, tel. 422 28 50) was appropriately ornate: the star dishes being those fat, spicy little cocktail sausages called *chistorras*; monkfish marinated in lemon juice and deep fried in batter; and the nuttiest, most delectable of Jabugo hams or smoked loin.

Down on the coast, in the slightly dowdy fishing port of Puerto de Santa Maria, there were razor fish and clams and shrimps cooked in batter. The strangest tapa available was *flore*, a mollusc which looked like a scaled-down version of an old-fashioned custard cream cornet. Piles of these monsters lay in the cool cabinets of the bars, their heads rolling drowsily out of their shells until, sensing the presence of a hungry man, they retracted swiftly into the false security of their carapaces.

A local speciality are the tiny red mullet, the size of whitebait, which are served in the bars; or fish from the sole family, just 2in long when fully grown, which are consumed whole - bones and all. As a special treat, my host took me to a bar the size of a broom cupboard - then watched with ill-concealed amusement as I ate an anonymous-looking tapa covered in bread crumbs. This was a *cradilla*, or bull's testicle, a great delicacy available only after the corrida.

In Andalusia, the drink favoured for washing down tapas of this sort is a fino sherry or a glass of manzanilla.

The fresh, tangy character of bone-dry sherry seems the perfect accompaniment and not just for the fresh sea and shell fish: it also matches Jabugo ham to perfection.

I returned from Andalusia, however, with one question unanswered: what do you eat with the marvelous old solera sherries, *amontillados* and *olorosos*? So I sought the help of John Bertram, a well-known London chef, and Gonzalez Byass, a company based in Jerez near Seville, which is famed justly for the quality of its old soleras.

It came as no surprise to me that the company's anyone that the company's crisp Tio Pepe fino went well with the fishy tapas - bread-crumbed balls of lobster; oysters grilled swiftly under the lightest of gratins; red mullet cooked with garlic and tomatoes; whitebait; or a proper Iberico ham from near Salamanca made from the native breed of pig and allowed to munch freely on acorns. Where the fino worked less well was with creamier foods.

The old soleras - the dry Amontillado del Duque with its huge nutty character; the Apostoles, an oloroso with a fine, honeyed sweetness overlaying an excellent bite; and the rich, sweet oloroso called Matusalem - were not destined to be drunk with fish. My suspicion was they would be at their best with Spanish cheeses.

The dry Duque proved the most versatile here, especially with the ewe's milk, Manchego-style Gusanman. The Duque was also good with the blue, Cabrales-style Fines cheese with its acid tang but, in general, the tasters preferred the fuller, sweeter style of the

Apostoles with the blue cheese. It was also voted the best partner for the meaty, goat's milk Cabra del Tietar, and there were one or two people who found it went well with the Andalusian goat's milk Sierra de Zuheros with its hard, soapy flavour.

The bigger old solera wines proved too flavoured for the lighter, crumblier cheeses. A young Manchego was far better with Tio Pepe (in Spain, Manchego is often served as a tapa with a glass of fino). Nor should it have surprised anyone that the slightly salty, creamy Iberico cheese, made from ewe's milk, should have married so well with the fino - salt and fino seem suited ideally for one another.

Much more difficult was finding a partner for the super-sweet Matusalem. A series of desserts created by Bertram were not ideal. Someone swore by its effectiveness with Christmas pudding, but I felt it should be drunk on its own, perhaps with some dried figs or a few walnuts.

Expect to pay between £8.99-7.99 for a bottle of Tio Pepe and between £19.99 and £25 for any of the old solera wines (while stocks last).

Oddbins is selling both the Duque and Matusalem at the bargain price of £15.99. Stockists for the cheese include Harvey Nichols (which also stocks Iberico ham), Harrods and Selfridges shops (all in London); Valorena and Crolla in Edinburgh; and the Fine Cheese Company in Bath.

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Two new restaurants in the City of London: the Sea-Shell, one of London's most popular fish and chip restaurants, has opened a new branch at No.2 Gutter Lane, Gresham Street, EC2Y 8HX (071-606-6961). And the owners of the Sri Siam Thai restaurant have engaged Ken Hom as consultant to help them open their first Chinese restaurant, Imperial City, at Royal Exchange, Cornhill, EC3 (071-628-3437).

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TRAVEL FOCUS - FRANCE

To the manoir drawn: the lure of old Brittany

Chris Eales discovers some gentle spring retreats at a reasonable price

WHEN MY friends are tired of London, they all come to me. I live in a manoir, something less than 20 kilometres from the northern coast of Celtic Brittany. British Celts founded this presqu'île in the fifth century AD. Perhaps this is why mainland Britons have a peculiar affinity with the Bretons. At any rate, the Brits camp in droves each summer and the Bretons reckon they get on better with them than with the mocs from Paris.

Malheureusement, I tell my friends, there are not enough rooms in this modest, 14th century manoir. It is tucked away in the heart of the Tregor, a tranquil pocket of 900 acres in the Côte d'Armor and bounded by some of Europe's most splendid coastline, right opposite Devon. So, I decided to visit some of the Tregor's many larger manoirs that actually rent out their ancient rooms. All are eminently satisfactory for those who would like a gentle spring retreat at a reasonable price in a place where the land wrestles with the sea.

My journey followed the footsteps and magnifying glasses of many posh architectural antiquarians. Professors have crawled all over manoirs here, some counting the rings of their wooden beams to date them. Nobles built and lived in them more than 600 years ago when Brittany was independent of France. Many manoirs were left to tumble by farmers who acquired them after the Revolution, but plenty have been saved and renovated to a high standard. Their chunky stone walls and towers, used originally for defence, remain a dominant feature.

Britons say it rains every day and twice on Sundays, but it forgot to rain the day I made my tour; indeed, the sky was bright blue. I got in the car and weaved off along the Tregor's roads, hardly big enough for more than one vehicle. I was heading toward the Chateau de Brelidy, a 16th century manoir with 10 guest rooms. I was soon lost in the wild, raw countryside of browns, greens, high banks, and the occasional grey of an old stone house puffing smoke. Somewhere, a dog barked. Otherwise, it was quiet. I was not in a

hurry. Nobody ever is in Brittany.

At the Chateau de Brelidy, I met Hector, a suit of shining armour. I did not know he was a fake until Madame Ymoucourt, who owns the manoir, told me. Also on display are stuffed snipe and, oddly, a collection of wedding dresses. Apparently, honeymooners used to stay there. In the hallway, through a glass cabinet, I saw the imprints of a hand on a fourth century drain, dug up in the chateau grounds under the ruins of an 11th century hill fort. Away in the distance were fuzzy tree outlines and the lonely Manez-Bre, at 300 metres the highest point in the area.

Like a dot, the summit is crowned by the tiny chapel of St Herve, a blind saint who climbed barefoot to it centuries ago. Legend says he was asked to advise bishops meeting at the chapel. When he arrived, a bishop thought he was a tramp and mocked him. The bishop suddenly went blind. St Herve found water, even in the hill, and splashed it on the bishop's eyes. He saw again.

You could spend the whole time within the chateau's splendidly restored walls of stone. Madame Ymoucourt cooks dinner, a daily choice of Breton dishes. Specialties are *homard* (lobster), *palourdes* (cockles) and *belons* (flat-shelled oysters). There is a library and television lounge, even a full-size billiard table. I drank a *demi* slowly before I left.

The Chateau de Kermenez, a smaller manoir, is about 10 km north of Brelidy, close to the village of Pommert Jaudy. Here, guests eat and drink with the count and countess of Kermenez. No need to tremble. The countess treats her guests as her family and she cooks different local dishes each day.

Two stone towers mark its courtyard. One of them once was a *pigeonnier* in which Breton nobles kept pigeons, which they ate; the number depended on the amount of land the manoir held. Hence, the size of the *pigeonnier* tells how important the manoir is. This one is impressive and so are its owners.

The count, who greeted me first, was wearing Wellington boots and carrying a chainsaw. The countess was at the back, digging the garden where the



The sea is never more than a 20-minute drive from anywhere in the Tregor

land declines steeply to the river Jaudy and a gorgeous valley. She told me later, as we sat by the fire sipping whisky: "The chateau has been in the family since the 1400s. The villagers returned it to us after the Revolution."

The sea is never more than a 20-minute drive from anywhere in the Tregor but from Plougrescant, at the Mannir de Kergrec'h, owned by the viscount and viscountess Stephanie de Roquefeuil, it is merely a delightful stroll away. In fact, this ivy-clad 17th-century manoir (there are four guest rooms) is on the Circuit de La Côte des Ajoncs, an inspiring coastal walk lined by *ajonc*, a distinctive gorse.

A dramatic feature of this coast, called the Côte de Granit Rose after its pink-coloured rocks, is to be found at Tregeret where huge slabs of smooth granite tower over the beach. They have been eroded into intriguing shapes - here a tortoise, there a whale. Their completely irregular angles seem man-chiselled, but this is a perfectly natural phenomenon and free to visitors.

If magnificent sea and country walks, punctuated by a glass of Muscadet and a dozen oysters, are too relaxing, there is always bunting and fishing. All arrangements will be made at any of the manoirs. And, if risking your cash is favoured, there is a roulette table in the casino at Ferros Guirec, the chicest spot on the coast.

Manoirs to stay (nightly rates): Chateau de Brelidy, 22140 Brelidy, tel. 010-33-96956938. Rooms from FF330, dinner FF175; Chateau de Kermenez, 22450 Pommert Jaudy, tel. 010-33-96913575. Rooms from FF420, dinner FF170; Manoir de Kergrec'h, 22820 Plougrescant, tel. 010-33-96925606. Rooms from FF490, dinner FF180.

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Taking the waters in Aix-le-Bains

THE PLAYER ran a few paces along the gravel and flicked his boule through the air glinting in mid-flight before plummeting on to a nest of boules, one of which cannoned into the board at the edge of the playing area. The player smiled and applause broke out among the several thousand spectators.

Under the floodlights, half a dozen matches were taking place. The competitors, many dressed in matching shell-suits, either catapulted their deliveries or knelt to roll the boules with a care bordering on tenderness. They seemed oblivious to the rain cascading into the marquee, or the gale huffing the flaps.

Taking refuge from the downpour, we had gate-crashed the national French four-side boules championship in Aix-le-Bains, taking place by the side of the beautiful Lac du Bourget. The surrounding village of tents, selling the local Savoy wines, food, or beer and pastis to quench the thirst of the fans, was a quadrangle. Overnight, the temperature had dropped from 31°C to 13°C.

The day before, we had taken a pleasure boat across Lac du Bourget - France's largest lake - to the Abbaye Royale at Hautecombe, which has a magnificent position on a small headland jutting into the water. The abbey, part of which dates from the 12th century, is the burial place of the counts of the duchy of Savoy. The duchy was part of the kingdom of Sardinia for a time but was incorporated into France in 1860.

We sailed from the Grand Port at Aix-le-Bains, where an elegant arch of plane trees on the waterfront esplanade gave shelter from the sun. Swans, coots and mallards fought over the crusty pickings of baguettes thrown from the shore by picnickers. We disembarked by a stone boathouse, centuries old. Until recently, the abbey - restored in the 19th century - was run by the Benedictines; now, a Christian

charismatic community has taken it over. In its cool and quiet, we were given hand-held radio sets which, like an unseen guide, directed us past marials and white statues.

There is a café in the garden next to the abbey, overlooking the lake towards Aix-le-Bains. A woman from the community brought our drinks and stayed talking for a while. "The climate is changing," she told us. "Certain kinds of flowers have stopped growing." We were relieved to hear that she also was waiting for what she



called the "fraicheur" (coolness) to arrive. And, the following day, arrive it did.

Deluges apart, Lac du Bourget and the surrounding flat-topped mountains have much to offer. There are plenty of water sports and rock-climbing on a walk through the forest past the foot of the sheer cliffs we passed groups of climbers, including a family where the father was coaxing his young son up the rock face. And there is hang-gliding. We saw gliders almost motionless, thousands of feet up in the hot sky, bunched by the lake thermal.

Although there is little snow in winter - there is a microclimate by the lake which makes bananas grow - resorts such as Grenoble and Albertville are not far. We found good walks, often with exhilarating views, around the lake

although some required us to tramp along roads. The paths weaved through thick woods of pine, oak and beech, meadows, and villages with small-holdings growing grapes, pumpkins, corn, aubergines, walnuts and fruit. Not so exhilarating were the loud and unfriendly German Shepherds that guarded almost every house and farm.

The dry grass of the meadows was dotted with delicate alpine flowers. It also seemed rustled with cicadas, small lizards and much else besides, including a snake with billous green spots.

A swim in the lake was a good way to cool off at the end of a hot day's hiking. There is an entry fee for the beach in Aix-le-Bains, at the Petit Port. But at Châtillan, at the quiet northern end of the lake close to the picturesque Savieres canal that links up with the river Rhone, the beach was free and the water warm, if rather slimy underneath.

The chief claim to fame of Aix-le-Bains is its thermal baths, fed by hot springs. The earliest baths date from Roman times but the modern ones are situated at the top of the town in a vast building, dreadingly imposing and reminiscent of the Great Hall of the People in Beijing.

In the footsteps of Bonaparte and Queen Victoria, not to mention Verlaine and the 50,000 French who take the waters annually on their national health service, I decided to try the thermal plunge. My wife abstained. The smell of sulphur grew stronger and stronger in the wide, marble corridors and stairways where the *caristes* - the receptionist referred tartly to me, a meek user, as a *touriste* - rested on sun-loungers. Afterwards, I felt both refreshed and enervated. The whiff of sulphur remained on my skin for the rest of the day.

Before leaving, we heard that the Aix-le-Bains team had won the boules championship. Perhaps the water had something to do with it.

Stephen Boule

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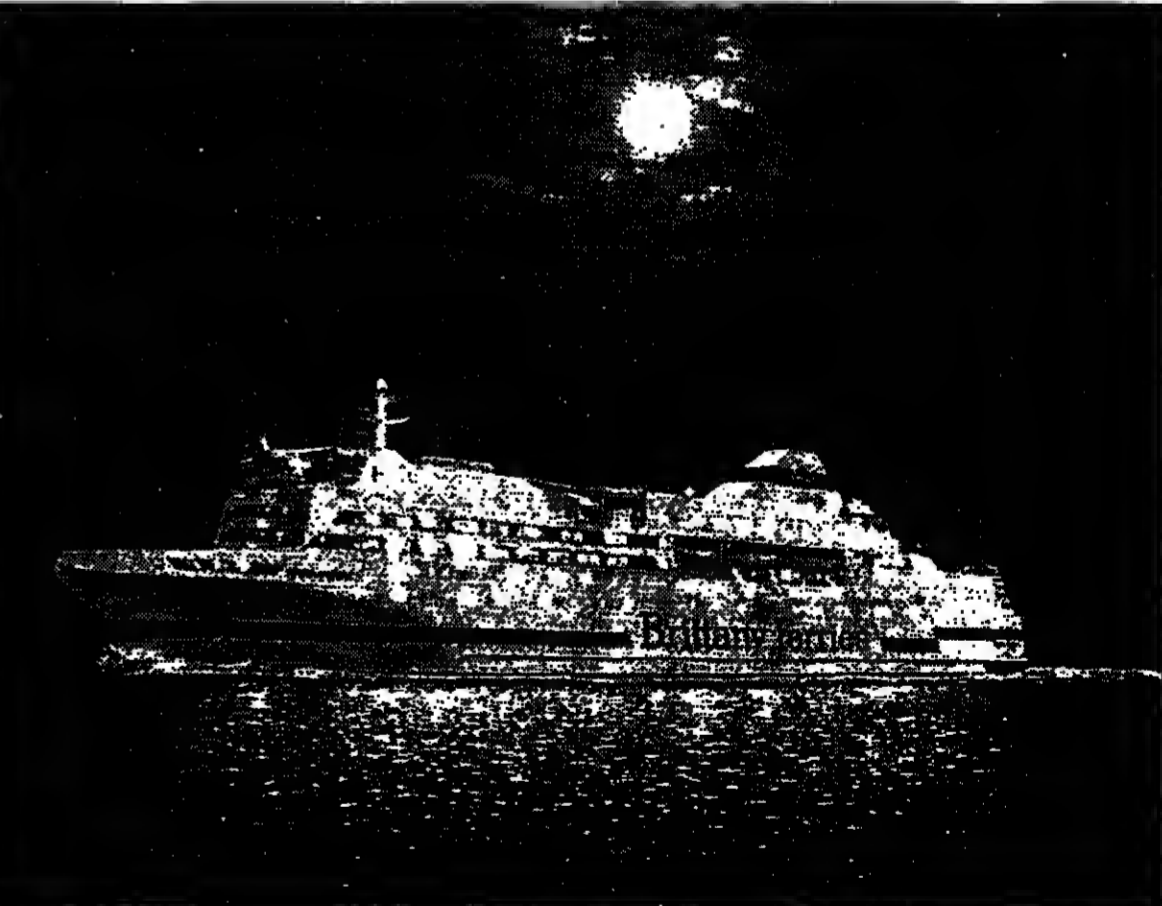
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den and then around the whole promontory. Only rickety fences prevent you from plunging down thyme-scented cliffs into a cobalt sea. But enjoy the light, which is Capri-like, and also note the Marconi tower, a small rude ruin whence the wireless

Otherwise, pencil-in bathing for the second leg of your Italian holiday. Sestri Levante is for land-lubbers only; those who like to look at the sea without getting involved too closely

One experienced Rio hand told me never to voyage abroad with more than a single credit card, handful of cruzeiras for walking-about money and \$20 for emergencies. It came to seem like good advice.

For the first-time tourist in Rio - a dwindling species - things can be bewildering. Items are either very cheap or hugely expensive - and quite randomly. Clean, well-appointed hotel rooms overlooking Copacabana Beach for around US\$40 a night? No problem. Admittedly, the hotels are

Keith Wheeler

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WITH THE coming of spring, one person's tree becomes another person's nuisance. My introduction to the fraught area of Tree v. Neighbour came a few months ago.

A free advisory service exists for Westminster residents with problems about trees - not only those in public places but in their own or other people's gardens. Free booklets are on offer.

**Patricia Morison on the
vexed question of Tree
v. Neighbour**

I was given a further booklet, *Trees and the Law* by JGS Harris (£3.50, obtainable

normally given TPOs because they require heavy pruning.) Cutting and pruning must be carried out according to British Standard regulations.

A TPO is registered as a charge on the

■ ***Arboricultural Association, Ampfield House, Romsey, Hants SO51 9PA; 0794-68717.**

Major's inflection was not translated in the Spanish and Italian papers I saw. Their journalists worked their way around it because, by itself, its meaning was hard to grasp in their languages. In Italy the phrase which has become

■ **James Morgan** is economics correspondent of the BBC World Service.

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BOOKS

A God for all seasons

The concept of deity is forever versatile, concludes A.C. Grayling

ANICE temerity attaches to the title of Keren Armstrong's book, for God allegedly exists outside time and therefore, like the virtuous woman of parable, has no history. But Armstrong has not attempted a history of God, but of mankind's idea of God; or rather of mankind's many ideas of God. For the concept of deity is protean, and readily assumes the shapes into which history's pressures squeeze humanity's needs.

Armstrong was once a Roman Catholic nun, and wrote a bestselling account of her loss of faith and return to secular life. Since then she has much of a profession of her somewhat ambiguous agnosticism, as an eloquent journalist of religion who is sympathetic to its attractions but sceptical of its claims. The ambiguity of her agnosticism arises from her preparedness to give bouse-room to thinkers as diverse as the medieval Meister Eckhart and the modern Ivan Turgenev, who cannot accept literal God-with-a-white-beard theologies, but who believe there is some sort of Absolute nevertheless, and who hide its indescribability behind a fig-leaf of paradox.

In this ambitious book Armstrong traces the history of Jewish, Christian and Islamic concepts of God from their beginnings to the present. This is a vast subject, demanding a wide range of scholarly skills. Only a tome compiled by specialists would be truly adequate, and Armstrong's single-handed attempt cannot claim to be so. She ventures Old Testament scholarship, classical philology, Islamic history, modern philosophy, and much besides, but by the end her exposition has become a series of vignettes, a couple of pages each to this thinker or that topic, betraying heavy reliance on second-hand material, and exposing Armstrong in waters beyond her depth.

But this is a commendable book nevertheless, and an interesting one, and I would rather it were widely read than not, for it says something important. Drawing on her own experience, Armstrong remarks that most people acquire confused ideas about religion in childhood, and thereafter neither modify nor develop them. But as soon as we realise that theologies are the product of history, during which barely recognisable versions of our own culture's beliefs have variously flourished and faded, we come to see religion in a markedly different light.

It must, for example, strike even desultory readers of the Old Testament that the tribal god it depicts is a bully and a tyrant. The contrast with the New Testament's avuncular deity is striking. But what readers might not know is that some biblical texts have a

decidedly questionable history. Consider *Deuteronomy*, which, in the midst of yet another doctrinal quarrel within Israel, was suddenly and conveniently "found" by workmen refurbishing the Temple — and of course gave unequivocal support to one side of the argument. Yahweh often entered on cue like this, apparently unable to resist politics; and invariably on the winning side. Jesus's divinity affords another example. In Mark's Gospel he is a man; in the theology of St Paul he is the medium of the New Covenant; in the fourth century A.D., after the Arian "heresy" controversy — accepting the Liberal reform years of 1909-11, his career might well have been dismissed as a study in failure. He could have been consigned to David Cannadine's list of Marlboroughs distinguished by too many debts, too much gambling and too much drink. Yet in 1940 Churchill's faults became virtues and, despite costly mistakes and terrible misjudgments, he emerged from the war as one of the greatest statesmen of our time, the only one of the three war leaders to retain almost unimpaired his claim to greatness.

One of the book's most fascinating chapters concerns the rise of Islam, which Armstrong tells us resulted from an Arab sense of inferiority. Arabs, she says, felt "mingled resentment and respect" for Jews and Christians because they had enjoyed direct communication with God. Leaders like Zayd ibn Amr longed for their own people to receive a divine revelation. It came at last to Muhammad ibn Abdallah in Mount Hira outside Mecca, in which the angel Gabriel instructed him to "Recite!"

The result, produced at laborious intervals over the following two decades, was the Koran, the "Revelation", whose sheer beauty of language is reputed to have been a frequent instrument of conversion in its own right. But, as with Christianity splits and controversies followed, and Islam's early tolerance towards other religions soon vanished, as did the early freedoms enjoyed by its women. And again as with Christianity, the long-term legacy includes the familiar horrors of intolerance, bigotry and persecution which characterise all organised religion.

The concept of God, Armstrong shows, is a gerrymandered affair. But she insists nevertheless that humans are spiritual creatures, and tentatively wonders whether the new theologies of Tillich, Martin Buber and others might meet our cravings for something ultimate. She is right to say that spirituality matters; but some of us would argue that only art and affection can appease its hungers. Her book therefore suggests a different solution. Rather than seek another new definition of God, we might do better to dispense with theologies altogether and place our hopes in the best of things humans instead.

But this is a commendable book nevertheless, and an interesting one, and I would rather it were widely read than not, for it says something important. Drawing on her own experience, Armstrong remarks that most people acquire confused ideas about religion in childhood, and thereafter neither modify nor develop them. But as soon as we realise that theologies are the product of history, during which barely recognisable versions of our own culture's beliefs have variously flourished and faded, we come to see religion in a markedly different light.

Here's a how-de-doo!

PENDING the archival biography of W.S. Gilbert by Michael Ffinch, an American theatre historian has been busy herself for a decade, here is yet another of those general books which from time to time re-stitch the Victorian collaboration. Smoothly written, Michael Ffinch's text incorporates a re-telling of the stories of the operettas and lengthy quotation from their verses. He is in no doubt that the dramatist was "a far greater man in every way" than the composer. Such a judgment, however, assumes a musical competence not evident in an author who asserts that the title of *Ruddigore* "is now often confused with Verdi's *Rigoletto*". The profusion of superscript figures and footnotes (or rather backnotes) is, alas, a façade. With

GILBERT AND SULLIVAN
by Michael Ffinch
Weidenfeld & Nicolson £20, 294 pages

no scholarly evaluation of his sources, Mr Ffinch reinstates a discredited anecdote on one page, yet cites in another context the later work which did the discrediting.

The fictional stories that Sullivan's grandfather rose to the army rank of sergeant and guarded Napoleon's heart at St Helena, and that Arthur Sullivan himself as a boy chorister sang at the christening of the Duke of Albany (Queen Victoria's youngest son) should have been nailed up for ever. On the other hand, the author has failed to catch up with recent discoveries about *Thespis*, Gilbert and Sullivan's first, "lost" joint work.

Repeatedly misnaming a character in *The Grand Duke* as "Drumkopp" instead of "Dummkopf", Mr Ffinch fails to perceive Gilbert's German joke. The misnaming of one of Sullivan's non-Gilbert operettas as *Hadden* (for Haddon) *Hall* and the misquotation from *Trilby* by Jury likewise betray an uncertain foothold on the terrain. The nineteen photo-illustrations are well chosen.

Arthur Jacobs

CHURCHILL quipped: "History will bear me out, particularly as I shall write that history myself". While the old lion may have wanted the first word, he must have known it would not be the last. *Churchill: A Major New Assessment* is a glittering collection of essays by a distinguished cast of historians, mainly British, without a continental (or woman) in sight. It is guaranteed to be a scholarly bestseller. There is hardly a contribution (each restricted to some 20 pages, and splendidly cross-referenced) that does not contain a golden nugget or a suggestive idea.

This deconstruction of Churchill's political life is revisionist history at its very best. A nuanced introduction and a beautifully written final essay by Robert Rhodes James on the "parliamentarian, orator and statesman" point to the central paradox in any assessment of Churchill's career. In 1939 Churchill was 65 years of age. The man for whom politics was a central passion had been out of office for 10 years and, excepting the Liberal reform years of 1909-11, his career might well have been dismissed as a study in failure. He could have been consigned to David Cannadine's list of Marlboroughs distinguished by too many debts, too much gambling and too much drink. Yet in 1940 Churchill's faults became virtues and, despite costly mistakes and terrible misjudgments, he emerged from the war as one of the greatest statesmen of our time, the only one of the three war leaders to retain almost unimpaired his claim to greatness.

Even Churchill's greatest strength, the mastery ability to use words in a way few could match, stemmed not from a natural facility of speech but from preparation of the most detailed kind. The effect of his rhetoric in the inter-war period was to make enemies in the Commons and to be judged boring, repetitive and prejudiced by his political peers. It was in 1940, with the brief but unforgettable "blood, toil, tears and sweat" speech that man and moment matched. It is hard to believe that in that year, as D.J. Worrell records, only five of Churchill's speeches were broadcast to the nation, for the prime minister's oratorical skills lay at the very heart of his mobilisation of the nation. The aristocrat by birth, who had probably never travelled on a bus, became the people's hero.

Churchill's egotism and driving ambition did not make political friends. His lifelong faith in the greatness of Britain and the strength of her empire already seemed archaic and dangerously romantic in the inter-war period. Beyond this constancy of belief, Churchill was a mass of contradictions, shifting between parties and policies with unacceptable frequency. Writer after writer in this collection, with but one or two exceptions, exposes the gap between the image and the reality of his achievements — the creation of the Anglo-American "special relationship", the bulldog stance of 1940, the president "cold warrior" of the Stalinist period, and the great "European" of the Zurich speech.

In one of the few contributions which singles out Churchill's permanence of vision, Paul Addison points to the element of paternalism which coloured his attitude towards social reform. In many ways, Churchill remained faithful to the precepts of his Edwardian inheritance; in others, he was the supreme realist and pragmatist.

In the most passionate critique of Churchill's policies, Sarvepalli Gopal argues that India was and remained Churchill's blind spot and that his visceral dislike of Gandhi, Congress and at times all Indians,



The paradox of Churchill

Zara Steiner admires revisionary history at its best

brought out the harshness and cruelty in his nature. Yet even here there was an element of realism. Once India went, he knew that the empire and the main source of British power would disappear. Elsewhere in the Empire, he looked to compromise and reconciliation. Churchill was a man of prejudices and preferences but, with the exception of India and a dangerous under-estimation of the Japanese, these rarely blinded him to the needs of the moment.

Apart from John Keegan, who makes a case for Churchill's Mediterranean strategy, other writers on military matters dwell on his failures. Churchill's passionate interest in war and the tools of war was a double-edged sword. The restless craving for action, the mania for capturing islands and the "ceaseless prodding" of generals and admirals often resulted in disaster. Churchill's fascination with science and technology, as illustrated by R.V. Jones, and his unusual and all-important interest in intelligence were key actors in Britain's victory. Sir Harry Hinsley, however, argues that it was in reaction to the prime minister's use of the Bletchley cryptids that a proper system of assessment and use was developed.

Churchill could inspire men and energise Whitehall but he was also a notable bully. Only a few, Alan Brooke and Montgomery the most notable among them, could withstand his formidable tongue. The strongest indictment of Churchill as strategist and war leader comes from Richard

Ollard's discussion of the Navy, for not only did Churchill never grasp the nature of sea power but he never appreciated the quality of the men who served him. This may strike many general readers as the most surprising argument in the collection. Even in 1940 Churchill's stance was not quite what it

CHURCHILL: A MAJOR NEW ASSESSMENT OF HIS LIFE IN PEACE AND WAR
edited by Robert Blake and W M Louis
Oxford £19.95, 581 pages

CHURCHILL, THE END OF GLORY
by John Charmley
Hodder & Stoughton £20, 742 pages

seemed. As shown by Robert Blake and David Reynolds, Churchill came to the prime ministership by default. His political weakness meant that he had to consider the possibility of peace in the terrible month of May. David Reynolds draws back the Churchillian curtain to reveal a more complicated story than that found in Churchill's own account. Nevertheless there is little doubt that the prime minister's decision for continuing the war and his ability to galvanise the nation behind him created an unforgettable kinship between the man and the people. Archaisms expressed in glorious prose created "their finest hour". Apart from his

self-confidence and faith in the nation, Churchill had only his belief in America's entrance into the war and a mistaken impression of German weakness to back his resolve.

Twenty-nine essays do not create a composite picture and no one here quite tackles the reasons why, after all the mistakes are revealed, Churchill emerges with his "integrity and greatness" intact. It is because John Charmley has cast doubt on the Churchillian decision taken in 1940 that he has incurred the wrath of so many historians. He fully deserves his moment of notoriety. This book is full of interest and important insights. He makes useful connections, between for instance, Churchill's stubbornness over India and his determination to fight on in 1940.

Charmley clearly enjoyed writing this book and this shows on almost every page. But his central thesis is fatally flawed. Churchill was not responsible for the fall of the British empire, nor can he be blamed for the country's decline from power. He did, at a crucial moment, mainly through force of personality, avoid linking Britain with Nazi Germany. This saved his fellow countrymen from having to make unacceptable decisions. Ask any Frenchman over the age of 60. It was the right choice and one which will never be forgotten. The Marlborough genes finally turned up trumps. But of the making of Churchill books there shall be no end.

Life on earth

gist, an ant-man whose work on the species of the tropical rainforest has led him on to contemplate the larger pattern into which his classification fits. Species diversity, the range of living organisms to be found within a single habitat.

THE DIVERSITY OF LIFE
by Edward O Wilson
Allen Lane £22.50, 424 pages

is at its most luxuriant in the rainforest; there the niches into which animals and plants can adapt themselves are narrower and more ingenious than anywhere else on earth. And what we know of that range of species is still only a partial picture of life on earth; what has been named and classified — perhaps 1.5m species altogether — is still only a small fraction of the total waiting to be recorded, for which estimates range up towards 100m. In the face of this uncountable profusion, man has set

about winnowing it with an effectiveness unparalleled in the history of life on earth. There have been mass extinctions before, the fossil record shows them punctuating geological time. But none threatens to be as comprehensive and savage as the one currently being meted out by one species on its fellows. Yes, the earth will probably make up the loss eventually, as it has always done before, but only after tens of millions of years. When the human race itself may well have joined the 99 per cent of the species that have once existed and are already extinct.

Wilson unfolds this litany of disaster in an even, cool tone. First he celebrates the glories of bio-diversity, then painstakingly chronicles the human race's efforts to destroy it. His remedies, the ways in which habitats might be saved, demands for food and material production reconciled with the need to maintain diversity, are persuasively argued. It would be easy to allow a note of hy-

teria to creep in, to turn the agenda which Wilson presents in his final chapter into an emotional polemic. But the facts are always allowed to speak for themselves; in the final analysis, he concludes, what happens to the planet is an ethical decision for the human race. "The stewardship of environment is a domain on the near side of metaphysics where all reflective persons can surely find common ground... An enduring environmental ethic will aim to preserve not only the health and freedom of our species, but access to the world in which the human spirit was born."

Sometimes repetitive, and encumbered by distinctly inappropriate line illustrations this is an important book. It takes the whole environmental issue on to a higher plane, more than the greenhouse effect or ozone depletion. It is habitat destruction that will affect the planet and the ecology which humans share with their congeners for as long as the race survives. "One earth, one experiment", Wilson warns, and it is up to us whether we choose to pull the plug.

Andrew Clements

FT children's Book of the Month

A little chip of Vermont

THIRTEEN-year-old Lyddie Wuthen had been queen in all but name of the poor cabin, the straggly fields and the sugar bush up in the hills of Vermont; but when she descends to the plain to begin work as a poorly-paid kitchen help at Culler's Tavern after her father disappears Out West and her mother, in the grip of a religious obsession, takes herself and the babies off to evangelical Uncle Judah's house, despair seems to starve Lyddie in the face. Why has her mother allowed the family to be split asunder in this way? And what can she, a poor, untutored girl, do to bring it back together again? The answer seems relatively simple: pay off the farm's debts.

After working in the tavern's gargantuan kitchens she drifts down to Lowell, Massachusetts, in pursuit of better paid work in the mills; and the account that Maryland novelist Katherine Paterson gives us of factory life in the 1840s in this novel could not be more different from the version provided by Charles Dickens in his *American Notes* of 1842 — a book that was received with great hostility by his hosts for, among other things, its harsh condemnation of slavery and its advocacy of international copyright.

Lyddie earns a good living in the mill, working like a demon to pay off the debts of the farm so that, one day, she might return home. Envious of her friend Betsy's bookishness, she acquires a fine edition of *Oliver Twist* and teaches herself to read by copying out individual pages and pasting them to her loom. But she also remains a perpetual outsider, a crow among peacocks, in her tight homestead and the punishing, overbearing house, speaking, as she does, her quiet mountain speech.

Unfortunately, the very yearning to earn enough money to liberate herself turns her into a different kind of person — tough, miserly, impatient with those weaker and slower than herself. Her mind becomes as calloused as her hands. And then the devastating news arrives: her mother is dead; her brother

has found a surrogate family; and the farm has been sold. There is nothing and no one to return to. The farm now exists only in Lyddie's excitable imagination.

Katherine Paterson has won many awards for her success in writing about children and teenagers pitting themselves against terrible odds — the struggles of Jess in *Bridge to Terabithia* (1977), for example, or the efforts of an older sister in the Newbery Medal winner *Jessie Rose I Love* (1980) to establish an independent life for herself when she has always lived in the shadow of a younger favourite. But *Lyddie* is much more than a piece of convincing portraiture. It is both a meticulously researched historical novel that

LYDDIE
by Katherine Paterson
Puffin Paperback £3.99, 182 pages

illuminates the conditions of life in an American industrial town of the 1840s, and an exploration of themes that have been written about too seldom in fiction for young people: whether or not work itself is a kind of enslavement; the plea languishing that must go on between the need to improve one's working conditions and the very human wish not to be taken for a troublemaker; and sexual harassment in the workplace.

These are mature themes — but they impinge upon the lives of children too, and Katherine Paterson has worked them into this novel with such skill that they have become an integral part of this excellently told and well-paced story.

American novelists have often demonstrated a rare ability to write about difficult, spunky children — among the best are Vera and Bill Cleaver, S.E. Hinton, Paula Fox, and even, perhaps, J.D. Salinger. Katherine Paterson has created something as good as anything that the others might have conceived in the person of the sturdy, plain Lyddie, a little chip of Vermont.

Michael Glover

Israel's Cicero

TEMPERAMENTALLY, Abba Eban never quite fitted into Israeli politics. Although he was at its centre from the country's birth, Donish, remote, supremely articulate, his precise grandiloquent style jarred against the untidy, reflexive mode characteristic of Israelis.

He here recalls how Harold Wilson once suggested that he lacked a killer's instinct in politics — surely an unfair judgment, since in the arena of international diplomacy, where he excelled, Eban frequently

PERSONAL WITNESS: ISRAEL THROUGH MY EYES
by Abba Eban
Jonathan Cape £25, 671 pages

demonstrated that instinct to telling effect. His problem was not a deficiency in ruthlessness so much as a lack of suitable armoury for the rough and tumble of Israeli politics, which favours the bludgeon above the rapier. He seems to be seduced by the cadence of language and intellectual symmetry to the point of being oblivious to the gut sensibilities of his public.

This book describes a long, distinguished career in Israeli public life, from initiation into the high echelons of pre-state Zionist politics at the precocious age of 22, to the retired eminence that he has been enjoying for a number of years now. Born in South Africa and raised in this country, he gave up a promising academic life in Cambridge to live in and serve the emerging Jewish state. He was Israel's first ambassador to the United Nations and Washington, Foreign Minister, Minister of Education, and Deputy Prime Minister.

As might be expected, his elevated view of the country's evolution allied to meticulous recall guarantees that his account is authoritative and comprehensive. Yet something about the assured flow of his narrative suggests a selective retrospection, with an element of score-settling and self-justification in mind.

Mr Eban's invaluable contribution to Israel's struggle has been in diplomacy, and the

parts of the book which deal with his years as Israel's envoy to the UN and to Washington are the most exciting. It is here that the eloquence of his prose complements his incisive sense of irony. Few of his contemporaries on the diplomatic circuit could show such an assured grasp of world affairs. Fewer still had the gift of summing up a complex situation as lucidly and concisely as he could.

The Suez crisis tested his abilities to the full. He came through, as in subsequent crises, with flying colours. The esteem in which he was held by statesmen who were not renowned for their affection for Israel is illustrated by one of his encounters with the then American Secretary of State, John Foster Dulles, in early November 1956. Eban made a crucial speech to the UN General Assembly: "It was past 2.00 in the morning when the vote came... As I walked down to the lobby, Dulles was waiting there... He began to speak with typically forensic professionalism: 'Listen, you did not seem to be reading. Did you have a manuscript?' I told him that, owing to pressure of time, I had not prepared my speech at all... He looked at me hard and offered a memorable tribute: 'Jesus Christ,' he said, as he stalked away. I was later told that this was the only occasion on which that austere churchman had been heard to utter the familiar but irreverent expletive."

Unfortunately, Eban was never fully appreciated in Israel. Perhaps the reason is that his moderation flowed from an alien rationality. His book, rich in insights, resonant in language, is the story of the Jewish state told by a Cicero, not a Thucydides.

Elon Salmon

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BOOKS/ARTS

The taming of the beast

Anthony Curtis reviews Brian Moore's latest novel

WHAT DID Graham Greene really mean when he said that Brian Moore treated the novel like a wild beast and tamed it? Barely suppressed violence is a constant element in Moore's novels, of which *No Other Life* is the 17th. The turmoil invariably erupts in some kind of bloodbath sustained over final purgatorial chapters with great narrative skill. In this one the underlying violence is that of the Duvallier "Papa Doc" regime, and its legacy, in Haiti. The island, with its elite of assassins, its military junta, its terrible gangster police and its down-trodden black peasantry, appears here in fictional form as Ganee where the narrator has for many years been a Roman Catholic priest.

Father Paul Michael looks back over his life on the island and the charismatic career of his native protégé "Jeanne" whom we see being recruited into his order. This character owes much to the young priest Fr. Jean-Bertrand Aristide of the order of St François de Sales, who in the late 1980s proclaimed from his pulpit that Haiti would never achieve democratic elections unless the government was overthrown. Aristide was one of those who, while leading his flock to political action, found support for it in the Bible. "Part of our mission," he said, "is to destroy the capitalist system. Socialism is closer to the gospel than either capitalism or communism". It was Liberation Theology with a vengeance. Moore tackles it here head on, and with great understanding.

We have been to Haiti before in a modern Catholic novel - in 1958 in Greene's *The Comedians*. But in Moore, unlike Greene, you do not have that *déjà vu* feeling of familiar content being served up in a fresh

setting. Every Moore novel is a new beginning. There is no such place as Mooreland. Wherever Moore's novels are set - Belfast, the South of France, Hollywood, a Californian campus, Toronto, Montreal - the characters are creatures of their environment, true natives, instantly recognisable as such.

Moore has moved around the world a good deal since 1952 when he was born in Belfast to be educated at St Malachy's, a Catholic College, where he had his first experience of a violent disciplinary regime. It became the setting for his early novel

NO OTHER LIFE
by Brian Moore
Bloomsbury £14.99, 216 pages

The Feast of Lupercal. In 1948 Moore emigrated to Canada where he worked as a journalist. He eventually became a Canadian citizen, but one who lives now in Southern California. In his earlier books the battle-ground tended to be domestic and professional. He dramatised the power struggle as it affected relations between men and women at work as well as at home. As an artist Moore is equally accomplished in identifying with, and narrating through, people of either gender. Entire novels may be carried by larger than life heroines, starting with that superb creation, portrayed so memorably by Maggie Smith on screen, the alcoholic Belfast spinster Judith Hearne.

But latterly Moore has turned from the contemplation of domestic disorders to forms of martyrdom - individuals forced to suffer from the pressure of history on account of their religious faith. Moore was born into a Catholic family and was from his cradle indoctrinated into the religion which

he now says he uses in his books only as "a metaphor". But even if he has adopted an agnostic position in his own outlook, religious belief remains an essential ingredient in the Brian Moore fictional mix. In a study of a modern liberated woman, the chic neurotic New Yorker heroine of *I Am Mary Dumas*, there sounds a far away parental voice on the phone with timely reminders of the doctrine of sin and redemption. And there is just such a wise voice in this new novel; but this time it is the parent's function to put the alternative view from which the novel takes its negative title, that our present existence is the only one we have, and that there is "no other life" to console us.

If that is really true, it makes it so much harder for Father Michael to reconcile himself to the spectacle of corruption and exploitation, of cynical perversy and cynical indifference to it by the ruling caste, that Moore evokes so powerfully in this short, explosive book. Moore brings this world pulsatingly to life through vivid descriptive writing and a series of beautifully accurate vignettes of the people surrounding his hero. He traces the steps through which Jeanne turns from a compassionate young acolyte into a clerical demagogue whose followers hail him as a saviour. Jeanne's moment of supreme power inaugurates a reign that is brief and ineffectual.

It concludes with the dictator Jeanne's final appearance in front of massed crowds after which he mysteriously disappears, sucked back, as it were, into anonymity. Into the sunken soil from which he first emerged. This movie-like finish ends an enthralling, thought-provoking tale. Once again the fictional beast has been well and truly tamed.

Women on women

FROM the Queen of Sheba to My Naughty Little Sister, a woman's social presence has always been different from a man's. Art through the ages has confirmed it - all those classical nudes begging to be looked at, flattering their male owners, literature has mostly maintained stereotypes. Here are three outstanding volumes of stories which, through the oblique but penetrating truths of fiction, say much about the gap between women as perceived and perceivers, as help-less icons and as creators of their own imaginative worlds.

We know Marina Warner as a distinguished cultural historian of female archetypes in biblical and folk tales; in *The Mermaids in the Basement* she turns her talents inside out and, in a series of dazzling monologues, imagines updated versions of the familiar figures speaking for themselves. It is not quite the Virgin Mary as Molly Bloom, but here is modern Kate as the Pharaoh's daughter finding a baby in a basket, Susannah (she of the "Elders") spied upon by her husband's property dealer colleagues in a posh villa, Martha hugging Cortellini and frozen blueberries and washing up for Mary as she realises, after years of housewifely devotion, that she hates her sister.

Warner's skill is to free her characters from the archetypal expectations that have hung on them for centuries and yet to use the very resonance from these myths to surprise and enchant anew. In "The First Time" she alternates a comic pop rhythm from the Serpent, who has "diversified" into selling tropical fruit at a supermarket, with the little-girl-lost floodgates of a lovelorn teenager who goes home with gulas, tamarillos and 13p change. The best story, "Be My Baby", is an elaboration on nun-ish

wisdom - "Sister Richard used to say the nun's was the highest calling, but that motherhood wasn't far behind" - through the superb, salt-of-the-earth Cockney vernacular of a nurse turned child-snatcher. Sensuous yet rigidly controlled, dallying with everyday banalities but stopping just short of cliché, *Indigo* offers reference into imaginative empathy, Warner writes with the delicious delicacy of a tightrope walker. In her last novel, *Indigo*, the attempt to pull myth into fiction read like a top-heavy academic joke, but in the short story, it seems to me, Warner has found her

THE MERMAIDS IN THE BASEMENT
by Marina Warner
Corgi & Windus £9.99, 228 pages

A LAZY EYE
by Mary Morrissey
Jonathan Cape £8.99, 229 pages

SUCH DEVOTED SISTERS
edited by Shena Mackay
Virago £14.99, 330 pages

milieu. The form enables her to spin out from one rich image or archetype into an original view of the world, and to convey it in a lyrical/tough style which does not sink under the weight of its own analysis. The result is exhilarating.

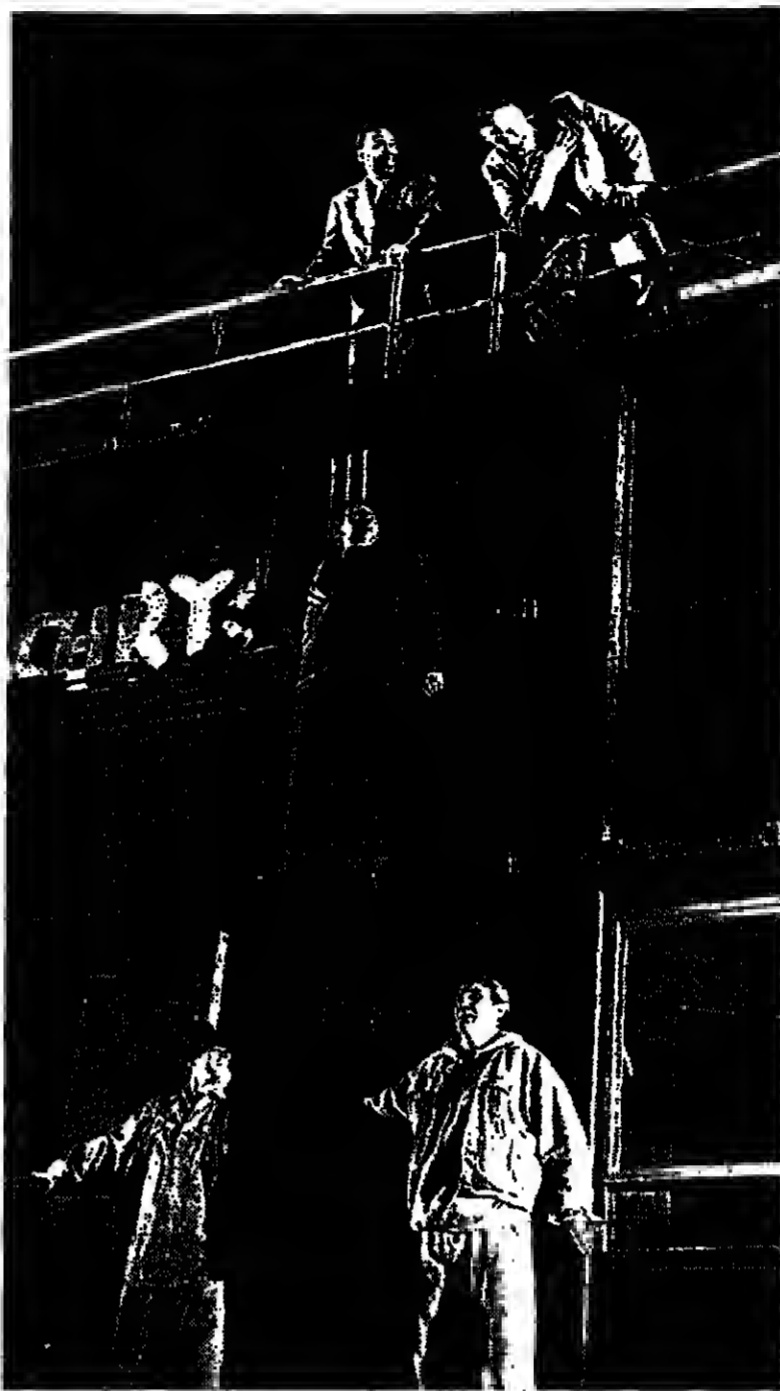
In fictional technique, the Irish writer Mary Morrissey could not be more different from Warner. The heroines of *A Lazy Eye* are anonymous, back-of-the-woods women whom we see for just fleeting moments of sheer, humiliating physicality - the start of menstruation, which gets a young traveller thrown off a European sleeper train; a woman revealing an embarrassing discharge to a hardnosed doctor. Storylines are slim, abrupt, almost proudly inconsequential; a throw-away, breathless prose rushes headlong, then smashes into deliberate flat-

ness. Yet each of Morrissey's women manages, within events of a few minutes or hours, to encompass two worlds: one of guilty oppression (the interior of the train or surgery, controlled by the conductor or doctor), the other a wild, masculine landscape of the mind to which this claustrophobia gives rise. There is the daughter, bargaining in hospital with God to save her father and let a youth in the next ward die instead, who is so intoxicated by her inner reality that she feels as guilty as a murderer. There is the shoplifter who remains loftily above her accusers when she is distracted and caught by a half-caste child who reminds her of her black babies the nurse once taught her to pray for. With artistry and warmth, Morrissey gives her characters a language as distinct as Warner's; people whom we might glimpse and pigeon-hole daily become atypical, particularised as quirky individuals standing up for themselves in a vengeful world.

The fascination of Virago's new anthology of women's writing on sisterhood, *Such Devoted Sisters*, lies in the parallels between pieces written in five continents over almost two centuries. Some of the finest, and most familiar, extracts here are thus illuminated: Janet Frame's "Keel and Kool", for example, a restrained yet vivid picture of a Christmas picnic in New Zealand where a child works out her response to the death of a sister, has emotional echoes of the sentimental, closed-in scene of Beth's death from Louisa Alcott's *Good Wives*.

Shena Mackay has had a plentiful sea to travel from, and her choice includes some stories which are perfect examples of the form, often from writers better known as novelists. Edna O'Brien's "The Connor Girls", where a child's view of two adult sisters and their romances changes painfully as she grows up, has the intensity and yearning nostalgia of *The Go-Between* condensed into 20 pages. Mary Flanagan's tale of sisterly bullying unravels like a horror movie. If there is an integrating theme, it is the innocence-to-experience story, with the particularly female twist of breaking away from family and social assumptions into self-knowledge and liberated identity. It is a welcome showcase for both women's writing and the short story.

Jackie Wullschlager



William Dudley's marvellous set for Alan Bleasdale's new play, 'On the Ledge'

Bleasdale clings to the ledge

ALAN BLEASDALE's new play opens spectacularly at the Nottingham Playhouse with a man suspended upside down while he attempts to paint the word "Anarchy" high up on the outside wall of a block of apartments in Liverpool. In fact, it comes out as "ANACHRY" and the distortion must be deliberate. Nothing in *On the Ledge* conforms to a pattern. The start could be black comedy drawn from Orson and Ayckbourn. The end, where Liverpool appears to go up in flames, approaches despair, but still shies away from tragedy.

Even the title is cryptic. "On the Ledge" would suggest that people might fall over, jump or be pushed. On the Ledge shows that they just about manage to cling on. According to a long programme note, an earlier draft of the play was called *On the Twentieth Side of the Mountain*. That touch of the inebriate has never quite left it.

In moving to a shorter, simpler form, Bleasdale must still have wondered how far to go between desperation and survival. Thus what we get is an odd mix: half throwaway lines that could belong to a stand-up comic, half social commentary. The set, on which the play depends, is dominant. Here is the outside of three floors of what looks like a fairly modern municipal housing development. There are no balconies, but ledges, where most of the action takes place. Sometimes characters appear on the roof. There is also a mechanical hoist which rises from the pit ready to rescue anyone in trouble. If you wanted to go in for symbolism, the hoist represents the Liverpool council finally arriving to prevent the worst. The one character who jumps from the ledge, and the only one who genuinely wants to jettison it all, is saved in this way.

Bleasdale, again according to the programme note, had considerable difficulty in writing this piece. He sent one revised text after another to Richard Eyre, the artistic director of the Royal National Theatre, who repeatedly replied, with helpful comments, that it

was still not right for production. Meanwhile, Bleasdale was much acclaimed for the TV serial *GBH*; changes were made to *On the Ledge* and Eyre agreed to a joint production between the RNT and the Nottingham Playhouse.

Perhaps Eyre was too kind. One can still see why he had his reservations. The play is all over the place. "Look," says one character on the roof, "there are fires everywhere." That's because it's Guy Fawkes' night. That's another, which apparently it is. Is this a reflection on the Toxteth riots in 1981? Bleasdale seems uncertain of whether he is writing a serious play.

The uncertainty extends to the characterisation. Some of the characters have names like Mal, the social worker with two children by different fathers, and Moey, the man who operates the hoist. Others are simply designated as Upside Down - the one who daubs the dykexic version of anarchy on the wall - and Man-on-Ledge, the man who makes the jump. Two others are simply called First and Second Brute. True, they are brutish, but there is no explanation why. Then there is Shaun, who may or may not be a former prominent figure in the Liverpool Council. His character is never developed.

There is rather a touching schoolmaster character called Martin played by Christopher Ryan, who has coupled with the social worker (Dearbhla Molloy), but again he might just as well be a one-off turn. Man-on-Ledge, played by David Ross, is obsessed by newspaper headlines like the one about a man who stole a British Rail egg sandwich and was therefore thought to be insane. In short, there is no order, no form, only what Upside Down writes as "ANACHRY". Possibly this is Bleasdale's message about Liverpool today.

The set, which is the best thing about the play, is designed by William Dudley. On the Ledge is directed by Robin Lefevre and moves to Norwich, Glasgow, Bradford and Newcastle before arriving at the National on April 27.

Malcolm Rutherford

TO MOST British theatre-goers, Samuel Beckett's 1961 classic *Happy Days* is an unknown quantity, whereas Prunella Scales, the latest interpreter of its central role, is - thanks to TV - a household name. At the West Yorkshire Playhouse's new staging, it is soon obvious that *Happy Days*, though Scales can reveal just about every comic facet in it, is nothing like the various comedies that have made her name.

Not since Aeschylus's *Prometheus Bound* has a protagonist been so tied to the earth. In Act One, Winnie is up to her waist in earth; in Act Two, up to her neck. She is not all alone. Many of her words are addressed to her enfeebled and laconic husband Willie, though he is usually out of sight and often out of hearing. Communication, contact, memory are ebbing. No observer could miss the absurdity of this situation. Or the pathos of it.

Scales's Winnie is Northern, middle-class, genteel, dowdy, fading. Nothing about her is heroic. Most of what she says she has said so often that her

Scales meets Beckett

voice sometimes grows flattened and monotonous from custom. Scales catches Winnie's nervous system; and, when she gabbles, she is alarmingly real. If anything, she over-characterises Winnie (she is nearly the flip side of Thora Hird in Alan Bennett's *Talking Heads*) - gives Winnie more surface than essence. When, for example, she says "Ah yes, things have their life, that is what I always say, things have a life," you are more struck by her quaint way of lingering on final consonants ("blimmings") than by what she is saying.

In general, however, she so illuminates Beckett's words that afterwards, checking, I was amazed to note how almost every detail arose from his mind, not hers - even the overlap of her laughter with Willie's. She has complete ease with Winnie's constant change of mood; she is as natural speaking of "the happy day to come when flesh melts at so many degrees",

or suppressing a sob in "That is what I find so wonderful," as she is when prodding Willie with her parasol or reminding him for his personal habits.

In details of timing, Scales, Robin Bowerman (Willie) and their director, Jude Kelly, do Beckett proud. In two important features, however, this staging diminishes text and play. Both concern our sense of time, and affect the play's larger meaning. Firstly, the two acts are separated here only by a brief scene-adjustment and pause - as Tynan recommended, after the 1962 Royal Court production. But, by doing away with an interval (the play runs at 90 minutes), Kelly has weakened the sense of time's passing.

Secondly, the text is heavily sprinkled with pauses - "too full of infernal pauses," wrote Tynan. Scales and Kelly, however, leave few pauses longer than a breath, and leave none of them infernal. Scales's eyes and mouth

FOR AN all-too-brief period at the beginning of the 19th century two kindred spirits poured out their feelings in poetry and song. John Keats and Franz Schubert. As the composer made no song settings of the poet, there is no way that their art can be enjoyed in harmony, but the Wigmore Hall's programme on Tuesday did everything it could to come as close as possible. This was the first in a short series of International Songmakers at the Wigmore Hall, devised by Graham Johnson. By interleaving readings from Keats's poetry and letters he gave the Schubert songs a larger dimension. So much the more in common - in Keats's words, the love for "nature's gentle doings", the romantic sensibility, the shared embrace of Grecian ideals.

This last was tellingly caught by set-

Songmakers in town

ting Keats's *Ode on a Grecian Urn* alongside Schubert's haunting "Die Götter Griechenlands". (The reader throughout was Jill Balcan.) No other music by Schubert evokes so well that classical poise and timeless beauty, both beautifully caught in Johnson's accompaniment, if less palpably by the Austrian baritone, Oliver Widmer. Nevertheless, the deep resonance of his singing, unforced, generously projected, rich in tone, every word clear, was the primary vocal pleasure of the evening.

Whether or not it is the Wigmore's new Bösendorfer piano, Johnson is playing better and better at the moment. The accompaniment to "Nachtymne" sang with a wealth of

voice, mezzo in name, perhaps, but rich, deep, touching alto depths with an old-fashioned steadiness and majesty when she wants to.

With Kathryn Sturrock her fine accompanist, she tackled a varied programme that included vivid Barber and intense Rakhmaninov. Sometimes there is a tendency to allow the basic, distinctive colour of the voice to run unvaried for too long, but her Rahn group found a new, quietly luminous quality for "L'heure exquise". In Brahms's "Die Mainacht" the voice showed that it could encompass both the tender and the deeply serious. It was brave, too, to carry on when the din of an Italian comic opera in rehearsal broke in from the main auditorium.

Richard Fairman

Radio/B.A. Young Community life

LAST Sunday, Radio 4, determined to ease us out of the distress we at the Merseyside news, showed us lives of restraint. First, the start of *Goodbye to All That*, where Simon Parkes visits artistic communities. His first was Deyva in Majorca, famous as the retreat of Robert Graves. Even in its best days it was evidently not without its faults: the poet Brian Paterson recalled "screaming drunks". But quiet and, in those days, hard of access.

An hour after this came *In Search of Utopia*, also about life in communities, but of a different kind. Presenter Felicity Goodall dealt mainly with the feelings of children in such places, where (at Bruderhof, for example) child-care and property are all communally organised, and no individual is allowed until a couple are engaged. At Findhorn in the north of Scotland, perhaps the oddest of the visits, there is communication not only with plants but with fairies and elves, and this a religious foundation. It seems to work; cabages grow there up to 40 lb! More communities next week.

Until the end of March, Radio 3 is reviewing the arts of the 1920s. Here is some of what is to come: archive recordings of literary grandees on their

contemporaries; popular music of the time, English, American, German and even Russian; today's critics on new views of the then-current novelists; Maria Jolas, wife of the founder of *Transition*, on Paris figures like Picasso, Stravinsky and Joyce; a reappraisal of Aldous Huxley, with readings of some of his stories. Last Sunday's talk by Vita Sackville-West on *Orlando* and tomorrow's by Prince Antoine Bibesco on Proust make a good start. But Radio 3 listeners who complain about too much talk will be very cross.

Fay Weldon's *The Hole in the Top of the World* on Radio 3 on Sunday is basically a romantic piece. Matt, a famous scientist, studies the ozone layer from a lab in the Antarctic with Nina, a young female scientist and rival to his wife Simone, but Ms Weldon does not write basic pieces. Simone thinks Matt to be in danger, not only from Nina, sharing his work and contemplating marriage, but from "the UVs" through the hole in the ozone. The hole, Simone believes, is due not to

CFCs but to all our illusions breaking out into space. This theory is more interesting than Simone's trip to the Antarctic lab with her top-boy Andrew, soon seduced by Nina. Perhaps it is basic, after all. The cast are all American, with Walter Matthau as Matt, not one of his great performances. The co-production with LA Theatre Works was recorded in Santa Monica under Shaun MacLoughlin.

On Thursday Radio 4 gave *The Architect's Dream* by Neil Rhodes. The dream was to build a two-mile-high city, clearing all the neighbouring land, but Ashley, the architect, retired first, and is now just building an extension to his retired neighbour Eric's house. Eric's wife, Mildred, is as silly as Ashley's wife Kay is bossy.

and the two dislike one another within neighbourly bounds. Eric, making a model of Ashley's dream, sensibly banishes Mildred with a hammer. Disputes are forgotten when Ashley visits him in the prison hospital. Key and Mildred become mates too, and that's about all there is, I thought the characters boring and the dialogue dull. Richard Wortley directed.

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The essence of Matisse

Even if you went to the New York exhibition — go to Paris, says William Packer

AMID THE critical debate that has lately erupted, at least in Britain, as to the relative worth of the current product of the avant-garde, it is salutary to be reminded that there is rather more to the modernist tradition than a urinal, a set of bricks, a fish in a tank or a bloody frozen head. It was, after all, not so very long ago — around Christmas 1945 — that the liberation of Europe was opportunistically celebrated at the V&A by a joint exhibition of the work of Picasso and Matisse, to hoots of derision and letters to *The Times*.

Picasso at his most mischievously cynical was summoned only the other day to further the case the modern was over more than the exploitation of the gullible, an argument to which his work has always given the lie — witness the magnificent exhibition of his still-lives that was in Paris only last autumn. Now it is the turn of Matisse, whose vast retrospective at the Museum of Modern Art in New York over the winter was described as the exhibition of the century. To my chagrin, it was a show I was unable to see, but now the Centre Pompidou in Paris happily offers a more than compensatory alternative.

Indeed it is the measure of the Paris exhibition that one wonders a superior were possible. For this is no truncated version of the New York show; rather it is a substantial study, concentrated and distinct, of the young Matisse in his early maturity, as he moved from tentative experiment to masterful authority. It was a transition achieved in barely ten years and, in marking that achievement, we discover the essence of Matisse. Those who did get to New York would not find a trip to Paris a waste of time. This is a very different exercise.

But, the young Matisse? It is always hard to think of Matisse as ever exactly young, and this show starts with him already 34. He had been active in Paris some ten years, showing regularly at the Salon des Indépendants, but his work was more remarkable for what we now know would come of it than for what it was — a serious, well-ordered and strongly modelled but somewhat academic post-impressionism. We pick him up at Saint Tropez and back in Paris in 1904, and still he is the creature of external influence — now of *pointillisme* and colour theory, now to some extent of Gauguin. By the following year and his trip to the south, this time to the little port of Collioure, he is entirely his own man.

The shift may not seem overdramatic. The colour remains clean and bright within its comparatively limited range of reds and yellows, greens and blue, and the brush-work as distinct and direct as ever. But yet, but for the odd painting of "le port d'Abail", that is a true throw-back to the pointillist systems of the year before, there is a new confidence in the spirit of this more clearly radical work, a new certainty in the statement of the image, and a renewed simplicity in the working of the surface, no matter how rapid or direct. A view over the roofs of Collioure and across to the far side of the bay marks the change, with its positive, spade-like strokes of the brush, its clarity of colour and the broad simplicity of its drawing. The drawing is the painting; the painting is the colour; the colour is the image. Here suddenly is the true *faute* at large.

This may not be the most obvious shift in the course of Matisse's career, but none is more significant. Through all the changes that would follow, of interest, scale or practice, these would remain constant:



The young Matisse: self-portrait of 1906

the simplicity and directness of the drawing; the simple certainty of the composition; the act of drawing itself inseparable from the act of painting; and the authority of colour as colour, used not as mere function of reference or record but celebrated for what it is — black as black, red as red, green never so green.

The "Red Studio" of 1911 is a broad, flat, rich field of undulating Indian red, yet filled with space and light by the artist's own paintings on the wall, the pile of frames in the corner, and the pots on the table. The "Porte-fenêtre" of 1914, by coincidence again at Collioure but so close in spirit to the Paris studio paintings of earlier that year, is as simple as any Rothko with its vertical

bands, blue, grey, green and black, black as night. Yet the space is there, and the sense of the space out in the night beyond, and all achieved by the simple device of the narrow strip of a darker grey that runs along to mark the floor at the angle of the open window.

And what do we then make of Matisse? Why is he so important, so great an artist? What is the point of him? But then to chase influences and effects is really to miss the point, just as it would be with Titian, or Rembrandt or Velasquez. We can only say: Matisse is simply Matisse. There he is in his Collioure self-portrait of 1906, in his striped vest, cropped hair and full set, looking into the glass and out at us; and there is the point on the surface, full

and rich, and there the bold, simple line, and simple, monumental image, oh, so deceptively simple. And why did he do such things? Because it interested him to do so, for its own sake. Look at the work.

Henri Matisse - 1904-1917: Centre Georges Pompidou, Paris, until June 21: sponsored by the Fondation Elf

Off the Wall/Antony Thorncroft Job for a millionaire

IF THERE is a millionaire out there who enjoys first nights at the opera and the theatre and has a fairly clear diary for the next five years the perfect job is hovering on the horizon. Lord Palumbo has made it plain that he will relinquish the chairmanship of the Arts Council when his term comes to an end in April 1994.

Lord Palumbo was far from being the first choice when selected but he has grown in confidence over the years and no one could fault him on diligence. He made the Council his life, helped perhaps by the comatose state of the property market, the source of his fortune. His major contribution has been getting the Millennium Fund idea off the ground.

As chairman Lord Palumbo has one other minor advantage to the Government: he was amazingly cheap. He paid for his car and chauffeur, never claimed expenses, and entertained Arts Council members, and the arts generally, out of his own pocket. A successor needs to be almost as rich because the post is unpaid. Heritage Minister Peter Brooke will probably allow you to claim travel, and other expenses, if he is really keen for you to do the job.

Who will succeed Palumbo? The likes of Lord Sainsbury, who turned down the chairmanship last time round, will not be interested. There is always Lord Archer, but the fragility of a woman chairperson might favour Lady Archer. Much depends upon what sort of Arts Council the new chairman will inherit. The consultants are about to move in again for yet another overhaul and there may not be much left to rule over.

The Department of Heritage can never quite make up its

mind what kind of Council it wants: in the last five years it has moved from imminent extinction to extra powers back to shrinkage, with uncanny speed. If the consultants recommend a slimmed down advisory Council, the masthead could well be served by Prince Edward. On the other hand the main attraction has always been that it confers a title on the recipient, which could bring a bright commode to the fore.

In a recession museums come into their own. They tend to retain their purchasing grants, however small, while private collectors cut back. The most expensive Old Master pictures sold these days end up in American institutions. Last month the Kimbell at Fort Worth paid \$2.4m for a late 18th century portrait, perhaps by Mengs, and this week the Getty in Malibu gave £1m to Royal Holloway College for Turner's whirling seascape, "Van Tromp going about to please his masters".

So it is a shrewd move for Colnaghi's, the Bond Street dealers, to invest in a fine new gallery which, with its red wall covering and natural daylight, resembles many a museum. It will be used to hang "museum" pictures, one of which, a Guerino, has already been sold. The gallery is the jewel from Colnaghi's acquisition for something approaching £10m of its adjacent building, giving it a line of three prime freeholds. Obviously Colnaghi's owner, German food magnate Rudolf Oetker, is confident that the worst is now over for Old Masters.

As for the Getty Turner, the Royal Holloway College undoubtedly trampled over the wishes of its pill-producing founder in selling the painting

but it got a very good price, a record for a British picture. The temporary export block to give the British a chance to raise a matching sum will be a formality, and there is much to be said for fine works by the UK's greatest artists entering major overseas collections. If a gallery in the UK needs a Turner, the Tate has plenty in its vaults that it might lend.

It is noteworthy that the Colnaghi sold the Turner privately. In the last couple of years Turner oils have fared badly in the saleroom: a discreet sale reduced the hostility to the transaction and prevented a public failure, which would have lessened the value of the Turner.

The knee-jerk reaction of the museum establishment to the sale overseas was predictable. Of course it sets an unwelcome precedent, but no comparable institution has such magnificent pictures and after this forer Royal Holloway is unlikely to split up its superb art collection. It might even repair its image by making it more accessible. Turner is poorly represented overseas; more British people will see it in California than at Egmont.

The Festival Hall is seeking to widen its repertoire, and from today until Tuesday night it will be showing off its flexibility for the very best of causes. War Child, a charity set up last month to help children caught up in hostilities, specifically in the former Yugoslavia, has taken the Hall for four nights. Tonight John Thaw hosts a classical night, with pianist Peter Donohoe, among others; Sunday features contemporary jazz; Monday comedy with Jo Brand, Jim Tavaré, etc; and Tuesday, rock with the Blues Band, the Bhundu Boys, and more.

Schubert, with 'piano' foibles

ON Tuesday Richard Goode played Schubert sonatas on the South Bank; on Wednesday there were Schubert impromptus in Nikolai Demidenko's Wigmore Hall programme, the third of six in his "selectively subjective" conspectus of the historical repertoire.

These pianists, American and Russian, had little else in common but their forthrightly intelligent address — and a couple of foibles. They both allowed their Steinways heavy, carnivorous roars in the bass, which no instrument that

Schubert and his contemporaries knew could have emitted. Sometimes that incurred real musical distortions: in Goode's sonatas D.537 and D.540, and in Demidenko's otherwise splendid account of the Weber Sonata no. 2, which was often bottom-heavy. Contrary to both pianists were shy with lyrical piano passages, which tended to have wan expressive profiles, treated with the caution of connoisseurs handling Fabergé eggs.

In everything sturdier, they had their own quite different virtues. Every sound that Demidenko makes has been

polished to his own exalted standards of perfection, every sequence tailored to its context, keyboard-balance finely calibrated — except in Weber — and the whole planned to the hilt. That is his way of realising his chosen scores. Goode, a Classicist of rapidly widening reputation, goes more aggressively for dramatic sense. His Schubert had some hard, unlovely moments, but also a wealth of hard-forged ideas, and urgent purpose.

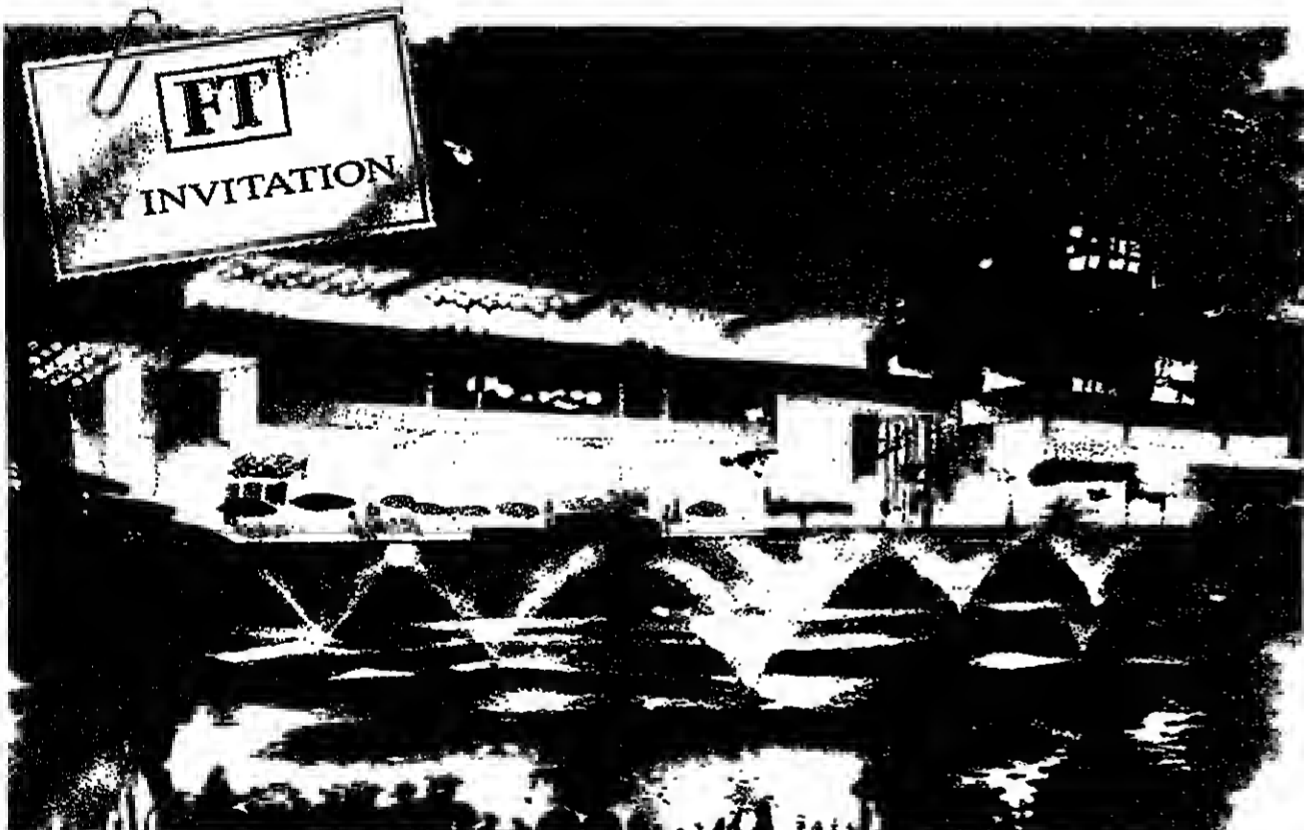
Goode was generally very sparing with the pedal — perhaps on advice, for too generous pedalling will blot in the Queen Elizabeth Hall; but the tantalisingly incomplete D.840 did sound uncomfortably lean in places, and its dramatic turns rudely abrupt. All in all, he seemed to play Schubert as if he were Beethoven, which was illuminating but not the whole story. The Beethoven cycle we are promised from

Goode next year should be the real goods.

Demidenko gave us Beethoven, the C major Sonata op. 2 no. 3, it was as good as expected — clean, elegant, virtuosic — but not excitingly better. As for his four Schubert Impromptus, D.935, it was strange to find the familiar magical passages simply disappearing beneath such superbly refined pianistic dress.

After the interval, however, Demidenko made brilliant amends with his Czerny (the Variations on "La ricordanza"), his Vofsiček Fantasia, and to be fair his Weber sonata too. Not only were the required digital feats brilliant as could be, but he melted warmly, almost expansively, into the sentiments of all that music — partly, no doubt, because they are so explicitly rendered in the figuration and the arabesques. Given those express demands, Demidenko revelled in them; and so did we all. A prickly, oblique artist he may be, but also a master pianist with few peers.

David Murray



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TELEVISION

SATURDAY

BBC1

7.30 News. 7.30 Henry's Cat. 7.35 Wiz Bang. 7.55 Lilo & Stig. 8.10 Eggs 'n' Baker. 8.30 Tom and Jerry: Greatest Hits. 8.40 Going Live!

12.15 Weather.

12.15 **Greenland**. Introduced by Steve Reid. Including 12.20 Football: Reviewing last week's FA Cup semi-final replay. 12.25 News. 12.55 Racing from Haydock Park: The 1.00 Petros Victor Lidorov Hurdle. 1.10 Boxing: Frank Grant v John Ashton for the British Middleweight title. 1.25 Racing: The 1.30 East Lancs Chase. 1.40 Indoor Bowls: The World Championship Pairs Final from Preston. 1.55 Racing: The 2.00 Greenall Gold Cup (Hcp) Chase. 2.10 Indoor Bowls. 2.25 Racing: The 2.30 Ladbrokes Racing Handicap Hurdle. 2.40 Indoor Bowls. 2.55 Rugby League: Leeds v Castleford. Live coverage from the third round of the Challenge Cup. 3.45 Football Half-Time. 3.55 Rugby League: 4.35 Final Score. Times may vary.

5.15 News.

5.25 Regional News and Sport.

6.00 No. 1 House Party.

6.55 The Paul Daniels Magic Show.

7.50 Comedy: Rob gets a shock when he treats a patient on his last day in the department, and Duffy announces she's getting married. But tragedy strikes when Holly City Hospital becomes a blazing inferno, threatening the lives of the staff and patients. Starring Jason Redington, Derek Thompson and Cathy Street.

8.40 Birds of a Feather. Comedy, starring Linda Robson, Pauline Quirke and Brett McKenzie.

9.10 News and Sport, Weather.

9.30 That's Life!

10.10 Match of the Day. Highlights from two FA Premier League matches.

11.15 Film: Foreign Body. Sex comedy starring Victor Banerjee as a bumbling attendant from India who poses as a doctor in London, providing special treatment for eager hordes of upper-class female patients (1993).

1.05 Weather.

1.10 Close.

BBC2

6.40 Open University.

3.00 Film: Witness for the Prosecution.

4.55 The American Way of Birth.

6.00 Late April.

6.40 Scrutiny. Report on the work of Parliament's select committees.

7.10 News and Sport, Weather.

7.35 Birthright: Labour Pains. Introducing an evening of programmes about birth.

8.00 Conceptions and Misconceptions.

8.25 Labour of Love. Childbirth and baby care as the late Victorians knew it.

9.10 Wax After Birth.

9.30 Special Deliveries. Part one of a documentary looking at daily life in the maternity unit of London's Homerton Hospital, and the progress of four first-time mothers-to-be.

9.45 The American Way of Birth.

10.10 Born to be Wild. David Attenborough looks at birth in the animal world with clips from the natural history archive.

10.30 Special Deliveries. An epidemic of the pain for Zehra. Part two of the documentary following the progress of four first-time mothers-to-be.

10.40 Robin Williams: Proud Father.

10.45 It's All Right Through the Eyes of the Father. Including the happy and distressing real-life experiences of three recent fathers, and clips from the film archives ranging from a terrified Michael Crawford to a petrified James Stewart.

11.15 Special Deliveries Part Three.

11.25 The Polisher's Supernatural Child.

1.05 Weather.

1.10 Close.

LWT

8.00 GMTV. 8.25 What's Up Doc? 11.30 Movies. 11.50 Movies. 12.30 The TV Chart Show.

1.00 MMTV News: Weather.

1.05 London Today: Weather.

1.10 European Champions' League.

1.15 European Champions' League.

1.40 WCW Worldwide Wrestling.

2.30 Snooker: The British Open.

2.35 Snooker: The British Open.

4.40 ITN News and Weather.

4.45 London Tonight and Sport.

5.10 News.

5.15 Blind Date.

7.00 Barrymore. Michael Barrymore with comedy, music and entertainment.

7.45 The American Way of Birth.

8.45 Tarrant's 10 Years on TV.

10.15 The Big Fight - Live! Herbie Hide v Michael Murray.

11.05 ITN News: Weather.

11.10 London Tonight: Weather.

11.15 Snooker: The British Open.

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CHANNEL 4

8.00 Early Morning. 10.00 Trans World Sport. 10.50 Gazette Football Italia. 12.00 Road Dreams. 12.30 Pop Songs and Memories.

1.00 Film: No Bad Songs For Me.

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REGIONS

ITV REGIONS AS LISTED EXCEPT AT THE FOLLOWING TIMES:

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Go easy on the copycat criminals

Where computer software companies see only theft they could find profits, says Max Wilkinson

WHAT IS wrong with theft if nobody gets hurt and nobody notices any loss? Not much, say thousands of people who routinely fiddle their income tax, conspire to avoid payment of Value Added Tax or make minor deductions against their insurance companies. It is wrong, of course, because the honest citizens suffer from higher taxes or insurance premiums, even if they cannot connect these with any particular rip-off.

However, there is one form of theft, now being vigorously combated, which many otherwise honest people commit with little or no sense of shame: the pirating of computer software. Illegal copying is made even easier by the development of faster personal computers and higher capacity magnetic storage disks (the sort which are posted into the front of the machine and

can be slipped into a shirt pocket). Programmes for word processing, doing accounts or spreadsheets costing between £200 and £400 can be stored on a few disks which can be bought for around a fiver. So the temptation to borrow a friend's programme disks and make a copy is high, especially as the risk of detection is minimal. Not surprisingly, the software companies are anxious to stamp out the practice, which they see as a straightforward theft of copyright and a significant threat to the revenues of their multi-billion dollar industry.

Some well-publicised raids on

companies which have allowed copies to be passed illegally from one machine to another, aggressively worded licensing agreements and a few programming tricks have all helped to make respectable folk a little bit more awkward about unlicensed copying.

Yet many people feel that there is something silly about present licence agreements, as there was in the discarded law that banned the tape-recording of radio broadcasts for personal use. In the days when personal computers were almost all to be found in offices, a tough stand against copying may have

made sense, for the software company must recoup high development costs from a product whose manufacturing cost (copying a few disks) is tiny. But computers are fast becoming a standard piece of domestic equipment in middle class homes and private individuals do not wish to pay £200 to £300 for a programme which they may use only occasionally. On the other hand, they do not want to struggle with an obsolete programme which may be much harder to use than the one they have in the office.

So they make an unofficial copy, and their reasons for doing this

deserve a hearing. At that price, says the pirate, I would never have bought a legal copy, so the vendor is not deprived of a sale. Indeed, the software company may benefit if I decide to buy an upgraded version or a manual (which some companies sell separately).

Anyway, says the pirate, warning to his theme, it is all the software company's fault for trying to charge me ten times his marginal cost of production. What is more he is inciting me to piracy by making it difficult for me to buy the previous (outdated) version of the product at a reasonable price.

Without doubt, excessively restrictive licence agreements (limiting use to one person on one machine) have contributed strongly to making these infringements widely tolerated among people who would be happy to pay a moderate fee to "stay legal". Software companies have been slow to learn the lesson from the airlines that empty seats can be sold at low prices, without destroying revenues from business class users.

The industry has at last started to recognise these arguments by selling "economy class" programmes at a much lower price

than the up-to-date full versions aimed at the business market, but prices are still high compared with the cost of making a copy, and some of the restrictions imposed on business users who might want make a copy of a programme in order to take their work home are absurdly tight.

Now that each copy of a programme can be labelled with the name of its legitimate user, it is possible to make the possessors of pirate versions feel uncomfortable, every time they switch on. So it is time for the industry to combine this moral lever with more relaxed conditions for limited copying and aggressive mass marketing of top quality programmes (not just clapped out versions).

In this way they will de-criminalise large sections of the middle classes - and possibly make money too.

THE PARISH priest of St. Anthony's is a burly Irishman with a good golf handicap and 30 years' experience in the shipyards and housing estates of Newcastle upon Tyne.

"Poverty is a sin," he said, "but it is a sin that the poor do not commit."

Unemployment, crime and punishment have this week provoked a frenzy of analysis by British commentators following the arrest of two 10-year-old boys for the murder of a two-year-old child on Merseyside and the reappearance of a national jobless total of 3m. I went to look for someone who knew about such things at first hand and who carried no ideological brief.

Fr Michael Conaty's views would be unpopular in London. The Left would object to his enthusiasm for self-help and traditional morals, the Right to his emphasis on compassion and forgiveness. But they are views with a weight of experience behind them.

Fr Conaty is an activist, not an analyst. Around the church of St. Anthony of Padua in the district of Walker he has built, with donations and public money, a day care centre for the old, a youth club, training workshops, and plans an information office for job seekers.

I asked him what he understood by "the underclass".

"Can I say straight away that this language is not in the vocabulary of the Church at all," he replied. "It's a judgement that society is making on one part of itself."

He prefers the word "outcast" to describe those who have given up the struggle against a hostile system. "But the marvellous thing about poor people is that they are all the time striving to be better. Better off materially?"

"Not so much materially. They are seeking a better quality of life. Poor people, by and large, are seeking education, they are seeking spiritual development."

Apart from low income, how does poverty show itself?

"In an area like this, very, very deeply. There's a tremendous spiritual poverty. There is an emotional and psychological poverty. That's why you can't talk about the poor and the underclass in the same breath. Poor people are probably driven into the underclass by what society is doing to them."

Last Sunday his parishioners prayed not only for the murdered child but for the two boys who were arrested. Because whoever committed that crime, Fr Conaty said, was as much sinned against as sinning. "When we are sinned against we reach a stage when we cannot take any more; something within us explodes. Aren't there too many people like you who see criminals as victims? John Major thinks society needs to 'condemn a little more and understand a little less'."

Fr Conaty called the politicians' responses "pathetic", and said: "I do accept that murderers must be removed



Private View/Christian Tyler

A pastor at the grass roots

Fr Michael Conaty's parish is poor. He thinks poverty is a sin, but a sin the poor do not commit

from society. But having removed them we have to look at what we are doing for them. There is an awful lot of self-righteousness going on. I find the harsh judgments that are made, the harsh statements in the media, very stark, lacking in compassion. We condemn the people rather than the crime itself."

The priest's Irish accent is unmarked by 35 years in the north-east of England; when he is emphatic his voice drops to a wheezy smoker's whisper. But when he made a disparaging reference to "market forces" and I suggested that was code for a certain former prime minister, he burst out laughing and his broad face flushed red. He did not reply.

Does poverty cause crime, or is crime a matter of choice? "There's crime at the highest level of society," he paused, mentioned a name, and, laughing again, asked me not to quote it. "I'm making the simple point that poverty and crime are not linked at all."

Aren't they? "Unfortunately poor people are driven to crime in order to survive. I'm speaking here of the ordinary things they do to

each other, like stealing. But there's crimes at a level of society that are done deliberately for greed and nothing else."

But when your own car was stolen and burned out on the field there, that was not for survival.

"No, well, unfortunately the people who do that are rebelling. They are rebelling against those who have and it's a way of expressing the rebellion. It is a fact that they don't understand the difference between right and wrong."

Fr Conaty described taking a group of children to Lindisfarne where they collected dead birds and rats to bring home. They were fascinated by fire, death and killing, he said. I asked him why.

"I want to use the right words here. I wouldn't want to judge these children at all."

He paused a long time and said: "These young people do not know what it is to be really loved. Because they are coming from backgrounds which have not got that capacity to really love. This is the spiritual poverty that's within. And while they might know that seeing blood, killing things, is wrong, they don't understand why it's

wrong. They've got a very low self-esteem. And they suffer the pain of being the children of rejection. They are the children of rejection and they're moving into a society of rejection. One of the ways rejection shows itself is in destruction and violence of all sorts."

The collapse of discipline, of a moral sense, was due entirely to the collapse of family life, he said. An extreme example was society's willingness to let homosexual couples adopt children. And of course divorce had been made easy.

"What we have is the product of the permissive society of the 1960s," he said. Liberation was a middle-class phenomenon that had been imposed on poorer people. "People don't want those sort of changes. That's why Catholic schools are burning at the seams."

"What we have become - and we're afraid to admit it - is a pagan society. We're no longer a Christian country."

Fr Conaty believes in the Devil. "You cannot deny the reality of Satan and you would be blind not to recognise his influence. But it is unspoken about because people don't want to give him that glory."

Fr Conaty maintains that British policymakers and administrators do not understand the problem of poverty. "Because they have only one way of tackling it and that is through glorious handouts. More is needed: people must be given the freedom and the space must be opened for them to be able to help themselves."

Have the churches failed to understand the problem?

"I think in the last 30 years the social teaching of the churches has become tremendously aware of the poor. But you have the one-eyed dog stuck in the corner day after day feeding people one gospel and we're trying to feed them another. So there's constant confusion and conflict."

If you had the power, what specifically would you do?

"I would take a thousand families in a poor area like this and I would give them complete ownership of the area, of their own problems. I would resource them financially, but I would take them out, broaden their horizons, try and help them to be creative with their own skills and talents and to work together as a community. The most important resource

of those thousand families are not the houses or anything else - it is the people. There is a solidarity among people in these situations."

"You see, everything that comes to them now is dictated from the top and it is all with terms and conditions. Any money that's given must make a political statement, must give glory to the system."

"I wouldn't be about chang-

ing their minds at all or changing their life styles. I'd be about changing their hearts."

Michael Conaty is 59, one of six children born to a farming couple in Cavan in the Irish Republic. His father died when the eldest child was still 12 and the family knew poverty. Another brother is a priest near Durham.

He likes football and television news, takes the *Guardian*

and *Independent*, reads spiritual essays and anything by Peter Ustinov. He has read the works of Mao Tse-tung and avidly follows developments in the ex-Communist bloc. His political hero is Willy Brandt, the former West German Chancellor.

Perhaps people would say you are just a dyed-in-the wool traditionalist Catholic priest.

"No, I'm not."

"Do you preach hell fire?" "No, I just love people and I preach the love of God. His voice dropped. "I have a tremendous awareness of the love of God and I share that with people. I'm not a man for rules and regulations. I pastor people in whatever circumstances they're in. I encourage them. I embrace them."

"You see, we're not doing things for people, we're helping them to be."

Later, he said, "The priest is not a social worker. The social worker is about changing people's attitudes, their minds, supporting them at a very human level. But there is a spiritual need that all the time must be satisfied."

You don't mean they want to go to Church every Sunday?

"No. The spiritual hunger is for someone to recognise them as they are."

Do you have a struggle with your religious faith?

"Where I struggle is that I get angry when I see what is happening to people here. I can get angry with God, angry with the Church, I get angry with the system. Because I see the destructive force that political systems are to people in this area. I have to come to terms with that in my own life."

An hour before, Fr Conaty had visited a field near the Swan Hunter shipyard used by children for motorbike scrambling. Residents approve; the police want it closed. He promised to help.

I referred to this and said: a cynic would say "Fr Conaty is a good man but really he's just trying to get souls."

"What I am is a fisher of people's hearts, you know. I'm not looking for anything from them. All the time I'm trying to give them what is good for them."

You're trying to get them the field, but you're trying to get them to heaven as well.

"No, I don't get them to heaven. That's God's job."

A word from your clutter buddy

Michael Thompson-Noel



I WAS IN Palm Springs, California, last weekend - the best place I know in which to veg out in February. To this end I took walks in the desert, sat by still pools, swung a few tennis rackets, lived on date shakes and was careful not to read anything more irk-making than Joseph Wambaugh or *The New York Times*. (I tell a lie. I read a bit of Balzac. But in Palm Springs they think that Balzac is a hardseller, so that was fine by them.)

Only once did my mobile phone chirrup, and then it was the president, calling from Air Force One. "Hiya, Michael," said the president, "just thought that I'd touch base."

"Good afternoon, Mr President."

"Bill will still do," he said. "William at a pinch. There is no call for ceremony." His voice sounded hoarse. "I heard you were in the Springs, soaking up the rays."

I said: "We have our problems, too, you know. We're expecting a storm tonight."

"Get away," said the president. The reason he was calling, he explained, was to see whether I had any course-setting ideas to help him dodge the

"tax-and-spend" flak caused by his speech to Congress in which he detailed initial remedies for America's woe-begone economy.

"I have told my people," he said, "that you have a great idea about once in seven months, so what have you got for me? Let me hear your input."

My brain churned into action. I signalled to the pool waiter to bring me - *por favor* - a grapefruit juice.

I said: "I do have an idea. It comes from reading the Word Watch column in *The Atlantic* by Anne H Soukhanov. She describes preliminary research into some of the words and phrases being tracked by the editors of *The American Heritage Dictionary of the English Language*, third edition (Houghton Mifflin).

New words and phrases that exhibit sustained use may eventually make their way into the dictionary, says the magazine.

"The phrase that caught my eye was clutter buddy. If you ask me, William, we should go to work on clutter buddy. Your presidency has started well. I

admired your speech to Congress. It will be a while, yet, before the dozy columnists at the *Post* and *Times* wake to the full potential of your presidency. They are still habituated to the multi-trillion wastrelism and political cowardice of the Reagan-Bush years. But they will stir from their torpor soon. To give them a kick, you should appoint a string of clutter buddies."

There was silence from Air Force One.

"Soukhanov says a clutter buddy is one who supports another person in sorting and discarding accumulated possessions."

She says that the anti-clutter movement of the 1980s - thought by some to be a reaction to the acquisitiveness of the '60s - is manifest in clutter clinics; in adult education classes in clutter management, which have produced some 200,000 clutter graduates; and in clutter hot-lines and de-clutter guidebooks.

"According to Soukhanov, people drowning in clutter are advised to start small: to clean a small area, perhaps 12 inches square. Keep it clean. Then go on to another spot. Experts in clutter

management also advise that people give themselves frequent rewards along the way.

"This is a big idea, William. An extremely big idea. You could be in the White House for eight years. After that, Hillary Rodham Clinton could be president, followed by Chelsea. We are talking 2016, William."

"But you have got to make your mark in the next few months. Appoint clutter buddies throughout Washington. Every cabinet member must have one. Their powers must be absolute. The reason the planet is suffering so cruelly is that governments everywhere are moving far too slowly. They are sinking in an ocean of intellectual garbage."

"They find themselves trussed and bound like carcasses at a meat show. Their reaction times are pathetic. Where is the vision thing? Poverty. Pollution. Over-population. All these matters are swamping us yet governments are scuttling crab-wise, afraid of their own shadows."

"The solution is simple: bring on the clutter buddies. We need them everywhere. Throw out the garbage!"

"That is great," said the president. "Everyone on Air Force One is beholden to you, Michael."

I said: "Think nothing of it, Bill. God bless America!"

HAWKS & HANDSAWS

SUPERB INVESTMENT OPPORTUNITY

BONDS: THE TIME IS STILL RIGHT.

The chart below shows the performance achieved by all* of our bond funds over the 25 months since the beginning of 1991. Given the current economic climate, we believe further excellent returns could still be achieved over the next two years.

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Shelton Prime Bond Fund	22.5%
SHPF FUND	22.5%
Shelton Bond Fund	22.5%
SHBF FUND	22.5%
Shelton High Income Bond Fund	22.5%
SHIF FUND	22.5%
Shelton Global Bond Fund	22.5%
SHGF FUND	22.5%
Shelton High Yield Bond Fund	22.5%
SHYF FUND	22.5%
Shelton Short Term Bond Fund	22.5%
SHST FUND	22.5%
Shelton Prime Bond Fund	22.5%
SHPF FUND	22.5%
Shelton Bond Fund	22.5%
SHBF FUND	22.5%
Shelton High Income Bond Fund	22.5%
SHIF FUND	22.5%
Shelton Global Bond Fund	22.5%
SHGF FUND	22.5%
Shelton High Yield Bond Fund	22.5%
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